AR : 02

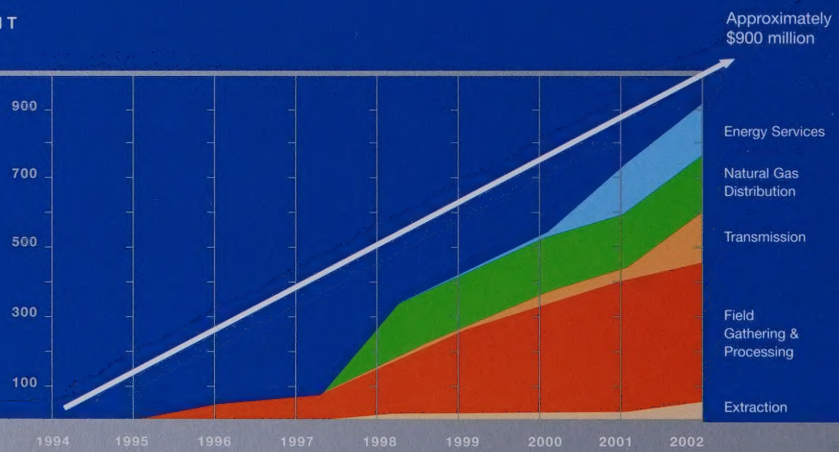
AltaGas Services Inc. 2002 Annual Report

PROGRESSIVE GROWTH

BUILDING A DIVERSE PORTFOLIO

The shell of the chambered nautilus... a symbol of consistent, proportional growth. At AltaGas we apply a similar measured consistency to our growth strategy. Over the past nine years, we have built our asset base through internal expansion and acquisition with deliberate diversity. We have grown each of our businesses to enhance earnings potential and predictability. Our business, commodity and geographic diversity supports overall stability and our revenue streams are predictable with minimal or managed exposure to commodity price risk.

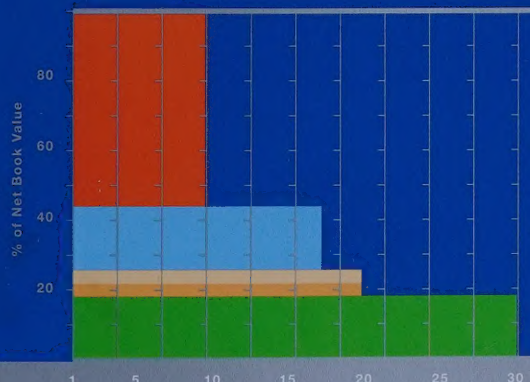
CAPITAL INVESTMENT
($ millions)



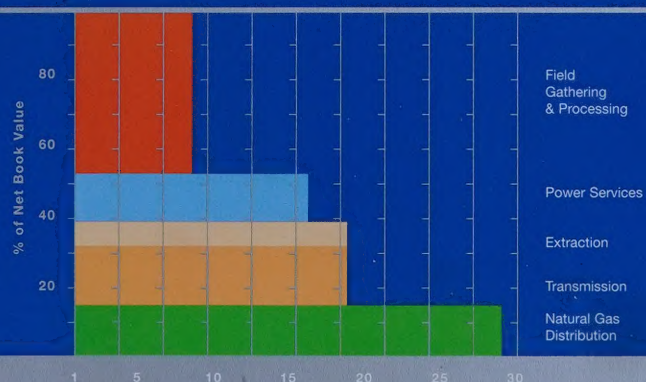
CREATING PREDICTABLE EARNINGS

Our investments are driven by one key strategy: to deliver long-term value to our shareholders. We define this as having infrastructure-based assets that, by contractual term or asset life, can generate cash flow out as far as 30 years. Today, AltaGas has that asset base. Over the past year, AltaGas has increased its investment in assets with longer-life cash flow generating ability – specifically Extraction and Transmission. We have successfully locked in long-term value.

CASH FLOW HORIZON 2001
(years)



CASH FLOW HORIZON 2002
(years)



Note: Gas Services contracts generally have one-year terms, with the option to renew or extend.

AltaGas is an energy infrastructure-based company. We own and operate a
customers. We offer value to our shareholders through disciplined growth, a div
shares trade on the Toronto Stock Exchange under the symbol ALA.

DEFINING

FIELD GATHERING & PROCESSING

Our gathering systems move natural gas from producing wells to processing facilities. Processing facilities remove certain hydrocarbon components and impurities from natural gas in addition to compressing the gas to meet downstream pipelines' operating specifications for transportation.

TRANSMISSION

Our transmission pipelines provide natural gas and condensate transportation services to distribution systems, end-users or to other downstream pipelines.

EXTRACTION

Our extraction plants reprocess natural gas from field plants to extract and recover a "deeper cut" of ethane and other natural gas liquids (NGLs) such as propane and butane.

DISTRIBUTION

Our distribution companies deliver natural gas to end-users for heating and other purposes.

POWER SERVICES

AltaGas markets 353 MW of wholesale electrical power from ownership of the Sundance B Power Purchase Arrangement.

GAS SERVICES

AltaGas manages and markets natural gas and NGLs from a supply pool made up of deliveries from natural gas processed at Company facilities and from other clients with natural gas supply unassociated with AltaGas facilities.

GATHERING & PROCESSING

Position

AltaGas is one of the top 10 Canadian
processors of natural gas and the third la
Canadian midstream company by capac

NATURAL GAS DISTRIBUTIO

Position

AltaGas services six percent of the Alber
natural gas distribution market, serving c
58,500 customers; interest in the only na
gas distribution system north of the Arcti
Circle, participating in an opportunity to
distribute natural gas in Nova Scotia

ENERGY SERVICES

Position

4.5 percent of the Alberta power market
130 natural gas services customers

portfolio of assets and services that are required by Canada's energy sector and energy
ed asset base, stable cash flow, and an innovative approach to the movement of energy. Our

HE MIDSTREAM BUSINESS

Assets
Over 6,000 kilometres of gathering lines, 75 processing facilities, interests in three extraction plants, one field fractionation facility and six transmission pipelines

Benefits
Long life assets; diversified geographic customer base; cost of service, guaranteed revenue, flow through operating cost and fee for service revenues

Risk Management
Minimal commodity price exposure; revenues volume driven

Opportunity
All gas must be processed.
Internal growth
- excess processing capacity expansion projects
- significant midstream infrastructure demand

Acquisitions
- unique strategy

Assets
AltaGas Utilities Inc. (100%)
Inuvik Gas (33%)
Heritage Gas (24.9%)

Benefits
Regulated; cost of service revenue; formula return on equity; long-term franchise service areas

Risk Management
No commodity price risk

Opportunity
Growth within existing and new franchise areas and existing franchise base; positioned for northern opportunities

Assets
50 percent interest in the Sundance B Power Purchase Arrangement (PPA); industry expertise; intellectual capital

Benefits
Long-term conservatively priced power supply contract in Alberta's deregulated electricity market; long-term sales contracts; fee for service revenue

Risk Management
Managed commodity price risk

Opportunity
Internal power usage and development opportunities; power sales to existing customer base;
Gas Services opportunities linked to growth in field gathering and processing

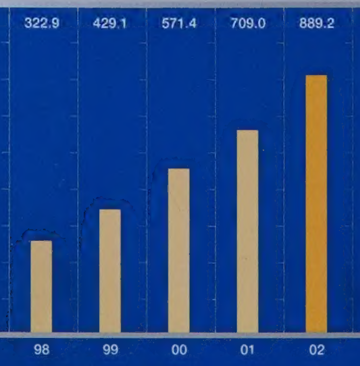
HIGHLIGHTS

($ millions except per share amounts)	2002	2001	% Change
Revenue	484.1	489.8	(1)
Net revenue	169.9	135.0	26
EBITDA*	95.7	70.6	36
EBITDA per share (basic)	2.26	1.85	22
EBITDA per share (diluted)	2.25	1.84	22
Net income	28.7	18.6	54
Net income per share (basic)	0.68	0.49	39
Net income per share (diluted)	0.67	0.49	37
Funds generated from operations	70.8	50.2	41
Funds generated from operations per share (basic)	1.67	1.31	27
Funds generated from operations per share (diluted)	1.66	1.31	27
Total assets	889.2	709.0	25
Shareholders' equity	336.3	260.2	29
Total debt	419.5	383.9	9
Shares outstanding at year end (millions)	45.2	38.5	17
Shares outstanding for the year (millions)			
Basic	42.3	38.2	NA
Diluted	42.6	38.3	NA
Key ratios			
Interest coverage (times)	3.3	2.7	NA
Debt % of total capitalization	55.5	59.6	NA
ROE (% average)	9.6	7.3	NA
ROC (% average)	9.2	8.7	NA

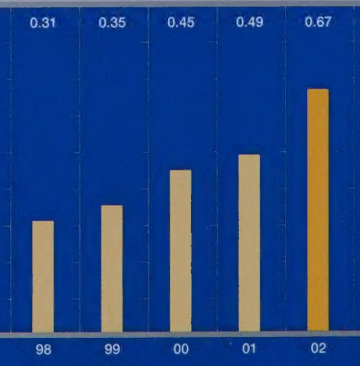
* Earnings before interest, taxes, depreciation and amortization

** Certain comparative figures have been re-classified to conform to the current financial presentation

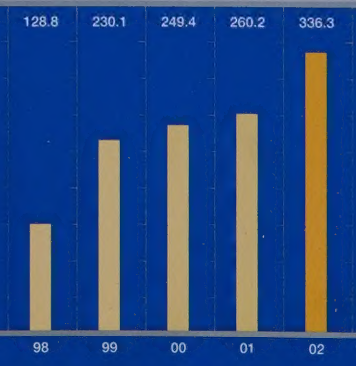
TOTAL ASSETS
($ Millions)



NET INCOME PER SHARE
($/Diluted Share)



SHAREHOLDERS' EQUITY
($ Millions)



PRESIDENT'S MESSAGE

The 2002 year was exceptional for AltaGas. We successfully integrated our power purchase arrangement into our operations and delivered outstanding power results. We saw steady volumes in our field gathering and processing business and higher volumes in our natural gas distribution, extraction and transmission businesses.

We augmented our diversified asset base through investments of close to $163 million, completing in December 2002 the acquisitions of the Suffield transmission pipelines and the Wabasca field gathering and processing facilities and the construction of the Joffre ethane extraction plant. These investments, which build on three components of AltaGas' business, lock in growth for 2003 and will generate long-term cash flows.

Our successes in 2002 resulted in net income of $28.7 million, a 54 percent increase over 2001. Over the past nine years we have consistently and deliberately built a profitable company capable of generating steady, long-life returns to shareholders. Our growth will continue and will be guided by the strategies that have been so successful in growing AltaGas to date. These strategies are articulated over the next few pages.

INVEST IN ENERGY INFRASTRUCTURE

First and foremost, AltaGas is an energy infrastructure-based Company and our goal is to be one of the largest infrastructure companies in Canada's energy sector. We proactively seek opportunities for expansion and acquisition in the natural gas, natural gas liquids and power businesses. Our geographical reach will be Canada and the northern United States.

ADD VALUE THROUGH ASSET DIVERSITY

We build value through midstream energy portfolio diversification. We own assets and offer services to move energy along the value chain from its source to the end user. In 1994, AltaGas began building an asset base that is valued today at close to $1 billion. Our early revenue stream came from the natural gas services, the ethane and natural gas liquids extraction and the natural gas field gathering and processing businesses. In 1998, we added natural gas distribution and transmission pipelines to our portfolio. In 2001, we diversified our energy portfolio further when we acquired the contract to sell power from the Sundance B power plant. Our growth is achieved through internal investment and acquisition opportunities. Our staff use their in-depth industry knowledge to link our portfolio of assets to increase their operating efficiency and utilization. We operate almost all of our own natural gas assets, which gives us the control to leverage the assets, the energy relationships and the arbitrage opportunities that can enhance our profitability.

EXTEND CASH FLOWS TO LOCK IN LONG-TERM VALUE

We look for opportunities to extend the horizon of AltaGas' cash flow streams to provide long-term value to shareholders. Diversification of assets in terms of their revenue source, contractual terms, exposure to industry cycles and geographic location supports overall stability. AltaGas generates a combination of regulated cost of service,

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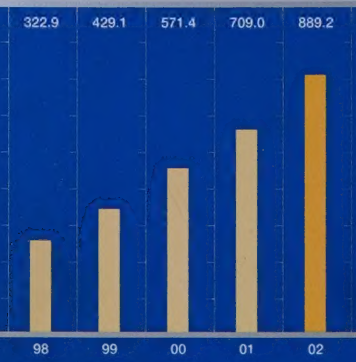
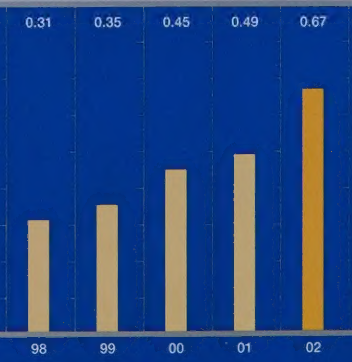


NET INCOME PER SHARE
($/Diluted Share)



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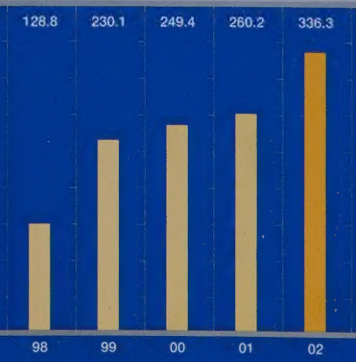

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guaranteed revenue, flow through operating cost and fee for service revenue. These revenue streams are predictable, with minimal or managed exposure to commodity prices. And their cash flow horizon covers the next 30 years.

MANAGE RISK TO MINIMIZE VOLATILITY

At AltaGas we take a low risk approach to business. The energy sector is characterized by volatility in commodity pricing and business cycles, but our portfolio approach allows us to manage that volatility and take advantage of good business opportunities. Given our business, commodity and geographic diversity, we are able to enhance our earnings potential and predictability as periodic weaknesses in certain markets and business components is offset by strengths in others. We plan the growth of each of our business components to ensure concentrations of risk are managed. Where opportunities are captured that introduce commodity price risk, such as our entry into power with the acquisition of the power purchase arrangement, we manage the risk to lock in predictable margins and protect AltaGas from dramatic swings in earnings. We do not engage in active, speculative trading. AltaGas' approach is the hallmark of a company with a long-term growth strategy.

OPERATE EFFICIENTLY TO OPTIMIZE MARGINS

Operational excellence is pursued in parallel with strategic acquisitions and expansions with the goal of providing the best results for both customers and shareholders. We have set targets for operational excellence which include efficient integration of recent acquisitions, continual improvement in our planning and business processes and review of our operational and maintenance procedures to ensure costs are minimized and the highest possible run times can be achieved at our facilities. And we will continue to evaluate our services to ensure we are delivering the desired level of service to our customers at the right price.

Operating efficiently in a customer-focused business such as ours requires attention to detail and communication, admittedly a challenge given AltaGas' rapid growth and change. Four times each year, AltaGas' senior management formally reviews strategies, tactics and initiatives to manage growth and achieve key performance measures. Profit and balance sheet achievement of our quarterly and annual goals are a major focus at these meetings. We believe our dedication to improving operational performance will result in enhanced margins.

MANAGE OUR BALANCE SHEET TO CAPTURE OPPORTUNITY

We maintain a strong balance sheet and key financial ratios to support our growth. Growth through acquisition has been and will continue to be a critical strategy at AltaGas. Our approach to acquisitions is disciplined, patient and measured; we are prepared to wait for the right deal at the right time and for the right price. Consequently, the timetable for acquisitions is unpredictable and managing our balance sheet is critical to have the financial capability to execute quickly when prudent acquisition opportunities are presented.

Typically, we initially finance acquisitions through bank credit facilities. We then refinance as required to maintain debt levels that provide a secure access to capital when we need it. We carefully manage our creditworthiness to minimize our cost of capital. We also use interest rate hedging instruments to manage our exposure to interest rate volatility. This strategy of conservative fiscal management has resulted in the strong balance sheet that is critical for us to pursue development opportunities.

PROVIDE SUPERIOR SHAREHOLDER RETURNS

We provide superior overall returns to shareholders. A number of key measures demonstrate our achievements in 2002. AltaGas' shares closed the year at $9.59 per share, an increase of 31 percent over the 2001 year-end close of $7.30. Annual dividends rose 56 percent over 2001 to $0.28 per common share. In the third quarter of 2002, we

announced an increase in quarterly dividends to $0.08 per common share, or $0.32 on an annual basis. The combination of share price appreciation and increased dividends meant that, for the year ended December 31, 2002, the total return for an AltaGas shareholder was 35 percent. This compares to a 12.4 percent drop in the S&P/TSX Composite Index, and 12.3 percent gain on the S&P/TSX Canadian Energy Index.

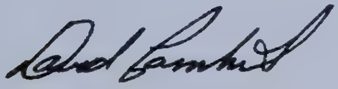
Over the past five years, AltaGas achieved a compound annual growth rate in cash flow per share of 28 percent and in earnings per share of 20 percent. The 39 percent increase in earnings per share in 2002 over 2001 resulted in a 2002 return on equity of 9.6 percent compared to 7.3 in 2001. Shareholders' equity increased 29 percent for the same period, partly due to the successful offering of $58.8 million of equity completed in June 2002. The past nine years have been a period of asset accumulation and growth in revenue-generating potential. Asset acquisition opportunities have not always happened in tandem with our levels of equity and since 1999 we have had lower than desired returns. With careful balancing of investments with opportunities to consolidate, expand, rationalize and re-contract existing operations to optimize operating efficiencies and maximize margins, our returns on equity have steadily improved. We believe AltaGas now has critical mass: with the size and structure to further our objective of generating above average returns to our shareholders, measured by consistent growth in earnings, cash flow, return on equity and return on investment.

BRING IT TOGETHER WITH THE RIGHT TEAM

Growth is a dynamic process. It requires both flexibility and focused discipline. We recognize that our strategies and the tactics to achieve them sometimes seem at odds with each other. For example, AltaGas is purchasing diverse assets, yet we want to be able to link these assets to create opportunity. We are working in an industry that has inherent commodity price volatility, yet we want to manage risk and limit downside. We want to deliver top quartile returns to our shareholders, yet we want to maintain a conservative financial structure. Our results say that AltaGas has delivered. We have been able to manage growth, build strong customer relationships and create long-term value for our shareholders.

Any accolades go to the AltaGas team. Our people are intelligent and committed. Not only do they understand the dichotomies of what we are asking of them, they are challenged by it. This team rises to the challenge by finding ways to continuously improve the way we do business. I thank them all for their support and their dedication. As AltaGas matures, pursuit of growth opportunities and support of customer and investor relations is demanding more of my time. Consequently, in 2003 we are deepening our management team with the addition of a President and Chief Operating Officer to focus on the operating side of our business. We expect to have this person in place by the end of the first quarter 2003. One of the three initial founders of AltaGas, Scott Sarjeant, Executive Vice President Energy Services is retiring after almost nine years of carving out the natural gas midstream business in Canada. We thank Scott for his many contributions in pioneering and building AltaGas.

Our story is evidence of the success of our strategies – many elements have come together to create AltaGas. The strategies communicated here have been essential to the growth of AltaGas and are critical to our future success. We will maintain our approach, follow our strategies and continue to build our company.



David W. Cornhill,
Chairman of the Board,
President and Chief Executive Officer

AREAS & FACILITIES

OPERATIONS REVIEW

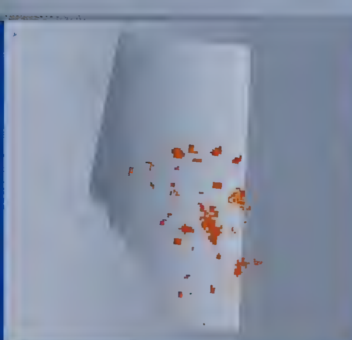
During 2002, AltaGas' business of delivering energy through a portfolio of infrastructure-based assets has provided numerous opportunities to continue to fulfill our strategic objectives to :

- invest in energy infrastructure
- extend our cash flows
- operate efficiently
- add value through asset diversity
- manage our risk

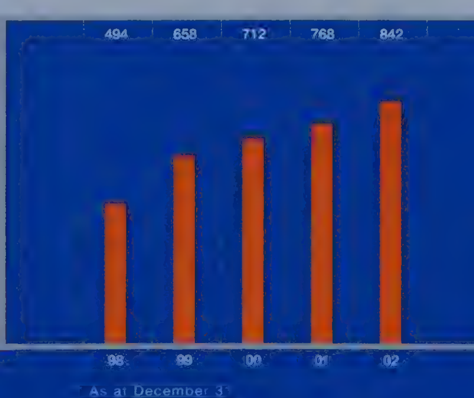
We significantly advanced our transmission pipeline component which has been a source of revenue for AltaGas since 1998. Transmission pipelines will be a major contributor to 2003 income as we realize the impact of the $95 million acquisition of two natural gas pipelines, located at Suffield, Alberta in December 2002. These National Energy Board regulated pipelines added 400 Mmcf/d of transmission capacity and 20 years of transport or pay volume commitments to AltaGas' transmission portfolio. The Suffield pipelines, which transport gas from 32 townships, serve areas characterized by multiple gas producing zones and long-life reserves which are currently being exploited by over 100 producers. AltaGas sees an expanded transportation role for these pipelines, and will work with potential shippers to develop additional transportation opportunities to maximize the pipelines' potential.

In late December 2002, the construction of the Joffre ethane extraction plant at Joffre, Alberta was completed and the plant was placed into service. The cost of the project, in which AltaGas has a 50 percent interest, was net $22.9 million. The plant is currently processing about 140 Mmcf/d of natural gas. The resulting production of approximately 8,000 Bbls/d of ethane and natural gas liquids (net to AltaGas) is marketed by the

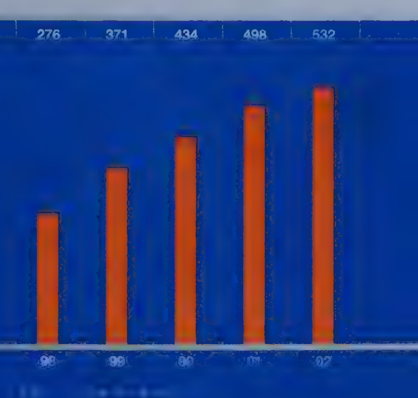
GATHERING AND PROCESSING
Areas and facilities
Transmission Pipeline



FIELD GATHERING & PROCESSING FACILITIES CAPACITY
(Gross Mmcf/d)*



FIELD GATHERING & PROCESSING FACILITIES THROUGHPUT
(Gross Average Mmcf/d)*



company and the ethane from the facility is contracted for 20 years at a fixed fee plus flow through of operating costs. Our 2003 results will see a full year's benefit from this year-end 2002 start up. During the year, construction also commenced on an expansion of the EnCana-operated Empress extraction plant located near Empress, Alberta. AltaGas has a 10 percent working interest in the facility and has committed $5.5 million to the expansion of the plant. The project is expected to be in service in the third quarter of 2003 and will add ethane capacity of between 1,400 Bbls/d and 1,900 Bbls/d (net to AltaGas).

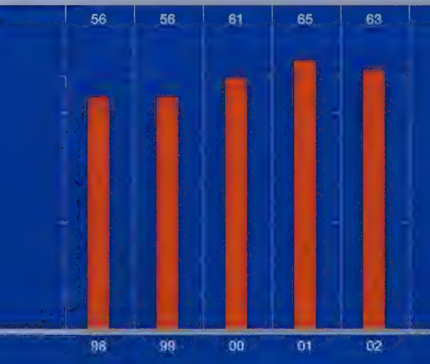
A key investment in our field gathering and processing component was the acquisition in late December of the Wabasca system, eight distinct but geographically concentrated natural gas gathering and processing systems located in northeastern Alberta, for a purchase price of approximately $19 million. AltaGas owns 100 percent of seven of the systems and has a 50 percent ownership interest in one of the systems. The Wabasca system includes approximately 800 kilometres of gathering pipelines, over 23,000 horsepower of compression, and 75 Mmcf/d of processing capacity which is backed by 20 years of volume commitments. The acquisition of this system opens up a new operating area for AltaGas and we see substantial future growth opportunities in the large blocks of undeveloped land that surround it.

In the Natural Gas Distribution segment, AltaGas Utilities completed the installation of the natural gas distribution system to serve the Gift Lake Métis Settlement. The project required the installation of approximately 46 kilometres of plastic pipe, 238 residential and commercial services, and two pressure control stations. Facilities were also installed to service 57 customers associated with an expansion to serve a lumber mill in the area north of Red Earth Creek in northern Alberta.

We also embarked on an opportunity to extend our geographic footprint beyond the western Canadian sedimentary basin and take advantage of our knowledge and experience in the natural gas distribution business. AltaGas has a 24.9 percent participation in Heritage Gas Limited, a company pursing the rights to distribute natural gas in Nova Scotia. On February 7, 2003 the Nova Scotia Utility and Review Board granted Heritage Gas a full regulation class franchise for a period of 25 years. Heritage Gas will make a decision about accepting the franchise and associated conditions in March 2003. There was no impact from Heritage Gas on AltaGas' 2002 earnings.

FIELD GATHERING & PROCESSING FACILITIES UTILIZATION

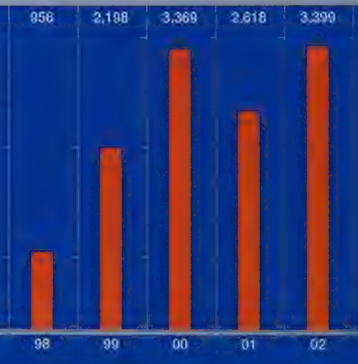
(Gross %)*



* As at December 31

EXTRACTION PRODUCTION

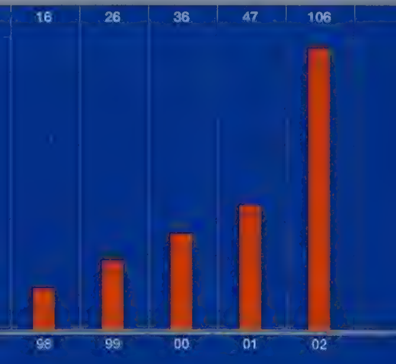
(Bbls/d)*



* Annual Average Ethane and NGLs Production (Joffre Extraction Plant placed into service December 2002)

TRANSMISSION VOLUMES

(Mmcf/d)*



* Fourth Quarter Average Except 1998 (Suffield Transmission Pipelines acquired December 2002)

These 2002 investments have revenue streams that extend beyond 20 years and have diverse locations, revenue sources and contractual terms. They combine with our existing assets to reinforce our strategy to build a company to succeed in all seasons and economic cycles.

The importance of remaining an integrated, diversified Company was demonstrated in 2002. Due to a natural gas industry slowdown, drilling activity declined substantially in many of our field gathering and processing areas. Consequently, with significantly fewer wells tied in over the year, our growth in this component was less than we had expected. Despite the challenges in the gathering and processing area, the successful integration of our power component and growth in all of our other businesses enabled us to achieve the exceptional 54 percent increase in net income.

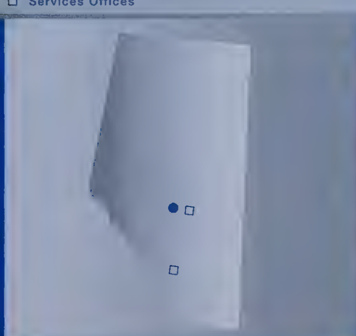
In conjunction with growing our business through acquisitions we must successfully manage the risk and operational challenges they bring. In 2002, our first full year in the power business we accomplished this. We hired a small team of power professionals to integrate the PPA acquisition into our marketing, accounting, management, regulatory and risk processes. We built our relationship with our partner, TransCanada PipeLines, who seamlessly took on the dispatch and day-to-day operations of the PPA. We implemented our plan to deliver strong results by managing the fluctuations in the price of power by locking in power margins through forward sales. To provide stable margins from our power business we forego, and will continue to forego, the benefit of upward power price swings in exchange for the security of protection against downward power price swings. Substantially all of the Company's power has been sold forward for 2003 and we expect to realize between $43.00 per MW/h to $45.00 per MW/h which will provide for strong, predictable performance in the power component in 2003.

Throughout AltaGas we are focused on improving operational efficiency and customer service while maintaining safe reliable operations. We are also focused on improving our organizational communications and decision-making processes to become more efficient and effective. We believe our customers want quick access to accurate information, high quality products and services, flexible systems and procedures, and intelligent, engineered solutions to move their energy. In several of our operating areas we are planning for the installation of

ENERGY SERVICES

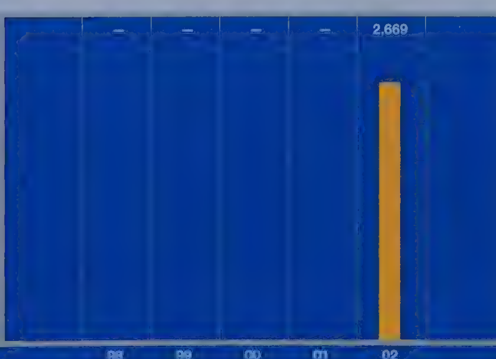
● Sundance B Plant

□ Services Offices



POWER VOLUMES

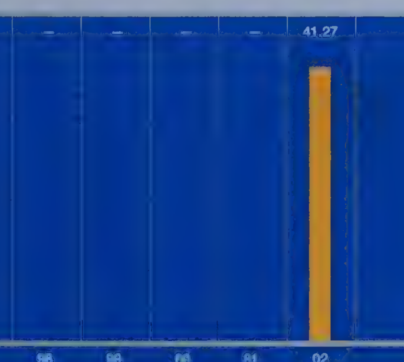
(thousands of MW/h)



Annual Average

AVERAGE POWER PRICE RECEIVED

($/MW/h)



Annual Average

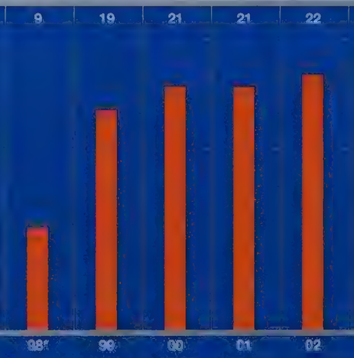
electronic flow measurement data capture concurrent with the deployment of an Internet based data capture system. This system will allow field operators to capture and transmit well and plant operating information so that critical production and operational information can be shared electronically with our customers.

We are ensuring that our operating and maintenance procedures are appropriate to improve facility run times and minimize costs. We are conserving capital by redeploying equipment and through operational efficiencies. In addition, producers are more frequently paying the costs of well tie-ins. As a result, in 2002 we were able to substantially offset normal natural gas industry reserve declines in our field gathering and processing component and maintain margins comparable to 2001 with net additions to capital assets, unrelated to acquisitions, of only $9.1 million. In 2002, the amortization in this component was $17.3 million resulting in a net decline in the capital invested in this business excluding acquisitions.

At AltaGas our entrepreneurial spirit dictates that we constantly strive to do better. As we grow and change our business we will continue to improve on what we have done in the past to ensure we stay competitive and deliver long-term value to shareholders.

NATURAL GAS DISTRIBUTION
Operating areas

NATURAL GAS DISTRIBUTED
(Bcf)



* Represents Six Months Ownership of AltaGas Utilities

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis provides a comparison of AltaGas' performance and financial position in 2002 to 2001 and should be read in conjunction with the consolidated financial statements and accompanying notes.

RESULTS AT A GLANCE

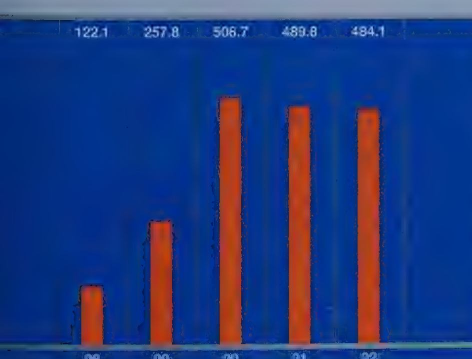
($ millions except per share amounts)	2002	2001
Net income	**28.7**	18.6
Net income excluding net gains from sale of investments	**28.1**	17.8
Net income per share	**0.68**	0.49
Net income per share excluding net gains from sale of investments	**0.66**	0.47

Per share amounts are based on the weighted average number of shares outstanding for the period.

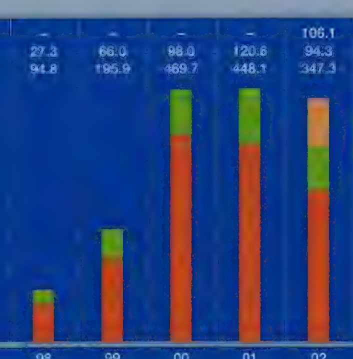
RESULTS OF OPERATIONS

Solid performance from all components of AltaGas' business continues to translate into strong operating and financial results. A significant portion of the Company's growth in 2002 was due to the investment in a power purchase arrangement (PPA) on December 28, 2001 which formed the basis of the new Energy Services segment. This investment did not materially affect operations for 2001.

CONSOLIDATED REVENUE
($ Millions)

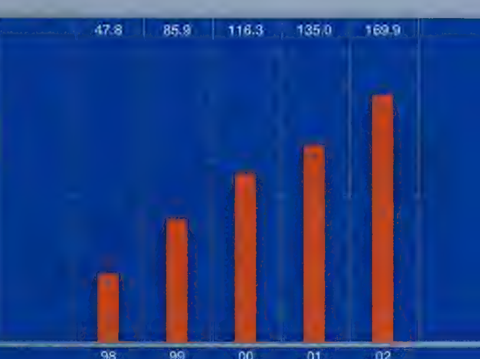


REVENUE BY SEGMENT
($ Millions)



Energy Services
Natural Gas Distribution
Gathering, Processing and Services
Excludes Intersegment Eliminations

CONSOLIDATED NET REVENUE
($ Millions)



Commencing January 1, 2002 the Company has three business segments. Years prior to 2002 have not been restated to conform with current financial statement presentation.

Consolidated Operations

($ millions)	2002	2001	% Change
Revenue	**484.1**	489.8	(1)
Net revenue [1]	**169.9**	135.0	26
EBITDA [2]	**95.7**	70.6	36
Operating income	**59.9**	43.4	38
Net income	**28.7**	18.6	54

[1] net revenue is gross revenue less the costs of the purchase of natural gas for resale, and the costs to purchase power under the PPA.

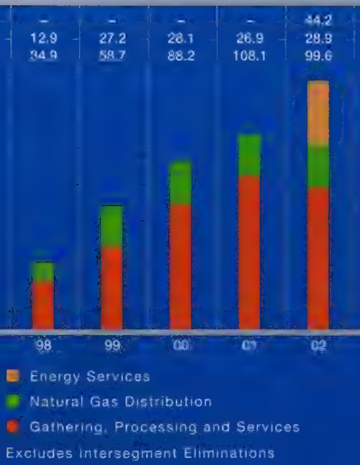
[2] EBITDA (operating income plus amortization) is provided to assist investors in determining the ability of AltaGas to generate cash from operations. This measure does not have any standardized meaning prescribed by Canadian generally accepted accounting principles and may not be comparable to similar measures presented by other companies.

Revenue in 2002 decreased from 2001 primarily due to the lower natural gas price received in 2002 for natural gas sold in the Natural Gas Distribution and Energy Services segments. This reduction in revenue in 2002 was significantly offset by revenue from the sale of power from the PPA.

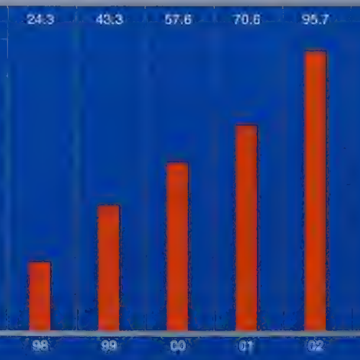
Growth in net revenue was due to the impact of power sales, a higher natural gas distribution contribution from increased volumes associated with colder than normal weather in the AltaGas Utilities' service area during 2002 and increased extraction production. In the gas services component and the Natural Gas Distribution segment, net revenue better reflects performance than does revenue, as changes in the market price of natural gas purchased for resale affect both revenue and the cost of goods sold.

Earnings before interest, taxes, depreciation and amortization (EBITDA) was $2.26 per share for 2002 compared to $1.85 per share for 2001. The increase in EBITDA per share is primarily due to power sales combined with a small increase from the Natural Gas Distribution segment as a result of colder than normal weather. EBITDA includes a net gain from the sale of investments of $1.0 million in both 2002 and 2001.

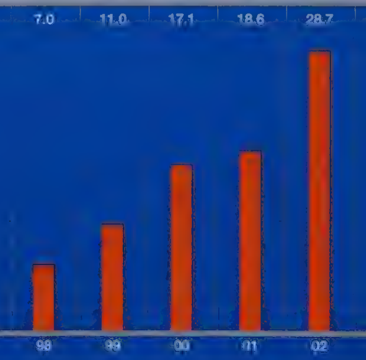
NET REVENUE BY SEGMENT
($ Millions)



CONSOLIDATED EBITDA
($ Millions)



CONSOLIDATED NET INCOME
($ Millions)



Operating income increased in 2002 over 2001 primarily as a result of power sales offset by higher operating and administrative costs.

For the year ended December 31, 2002, the 54 percent growth in net income was from power and the higher natural gas distribution contribution from increased volumes associated with colder than normal weather. Net income in 2002 and 2001 includes gains on the sale of investments of $0.6 million and $0.8 million, respectively. Net income, excluding gains from sale of investments, was $0.66 per share in 2002 compared to $0.47 per share in 2001.

The per share results reflect 42.3 million average basic shares outstanding for the year ended December 31, 2002 compared to 38.2 million average basic shares outstanding for the year ended December 31, 2001. AltaGas closed a public offering of 6,325,000 common shares on June 7, 2002.

Results by Operating Segment

On January 1, 2002 AltaGas began reporting consolidated financial and operating results on the basis of three business segments: Gathering and Processing, Energy Services and Natural Gas Distribution. Gathering and Processing includes natural gas field gathering and processing facilities, ethane and natural gas liquids extraction plant interests, natural gas transmission pipelines and third party facility operations. Energy Services includes power services, gas services, and oil and natural gas production. Natural Gas Distribution includes AltaGas' wholly-owned subsidiary AltaGas Utilities Inc. and the Company's one-third interest in Inuvik Gas Ltd., a company that distributes natural gas within the Town of Inuvik. Prior to 2002 gas services and oil and natural gas production were included in the Gathering, Processing and Services segment.

Gathering and Processing and Energy Services

The Gathering and Processing and Energy Services segments' 2001 results have been combined for the purposes of discussion and analysis. It is not practical to separate the results for gas services, and oil and natural gas production from the 2001 Gathering, Processing and Services results due to the sharing of certain costs.

FINANCIAL RESULTS

($ millions, unless otherwise noted)	2002	2001	% Change
Revenue			
Gathering, Processing and Services		448.1	
Gathering and Processing	**106.1**	n/a	
Energy Services	**347.3**	n/a	
	453.4	448.1	1
Net revenue			
Gathering, Processing and Services		108.1	
Gathering and Processing	**99.6**	n/a	
Energy Services	**44.2**	n/a	
	143.8	108.1	33
Operating income			
Gathering, Processing and Services		35.2	
Gathering and Processing	**27.1**	n/a	
Energy Services	**24.0**	n/a	
	51.1	35.2	45

OPERATING STATISTICS

($ millions, unless otherwise noted)	2002	2001	% Change
Gathering and Processing			
Processing capacity (gross Mmcf/d) (1)	**842**	768	10
Processed throughput (gross Mmcf/d) (2)	**532**	498	7
Capacity utilization (percent) (2)(4)	**63**	65	(3)
Average working interest (percent) (1)	**88**	88	–
Extraction inlet capacity (Mmcf/d) (1)	**349**	219	59
Extraction production (Bbls/d) (3)	**3,399**	2,618	30
Transmission volumes (Mmcf/d) (2)(5)	**106**	47	126
Energy Services			
Volume of power sold (thousands of MW/h)	**2,669**	n/a	n/a
Average price received on the sale of power ($/MW/h) (3)	**41.27**	n/a	n/a

(1) As at December 31

(2) Fourth quarter average

(3) Average for the year

(4) Processed throughput includes Wabasca from November 1, 2002. Proforma for the full quarter would result in 65 percent capacity utilization.

(5) Excludes condensate pipeline volumes

Revenue from Gathering and Processing and Energy Services increased primarily due to power sales, partially offset by the lower price of gas received from gas services. Gas services are primarily margin based, with revenue increases closely tracked by increases in costs to purchase natural gas. Revenue, net of this commodity impact (net revenue), increased as a result of power sales from the PPA acquired in late 2001.

Throughput volumes in the field gathering and processing component increased in the fourth quarter of 2002 due to the acquisition of eight Wabasca field gathering and processing facilities effective November 1, 2002. Excluding Wabasca, gross average throughput in the field gathering and processing component remained relatively flat for 2002 despite significantly lower levels of drilling activity compared to 2001. Although AltaGas tied fewer gas wells into its facilities during 2002 it was able to substantially offset natural declines related to gas reserves with minimal investment in capital infrastructure.

Transmission volumes increased in 2002 compared to 2001 due to the conversion of portions of an AltaGas gathering system in the Cold Lake area into a transmission pipeline, and the acquisition of a small pipeline at Battle Lake, Alberta. Volumes in the transmission business further increased in December 2002 with the acquisition of the Suffield transmission pipelines.

In the extraction component, average production increased in 2002 compared to 2001 largely due to increased ethane volumes processed. Extraction inlet capacity increased in 2002 compared to 2001 due to the start-up of the Joffre ethane extraction plant in December 2002.

AltaGas is not in the business of exploration and development of natural gas reserves. However, associated with facility acquisitions, AltaGas has accumulated a portfolio of oil and natural gas reserves that it continues to hold and produce to act as natural hedges to other business activities.

Operating income increased due to power sales, offset by higher operating and administrative expenses.

Natural Gas Distribution

The Natural Gas Distribution segment includes AltaGas Utilities Inc. (AltaGas Utilities or AUI) and AltaGas' one-third interest in Inuvik Gas Ltd.

FINANCIAL RESULTS

($ millions, unless otherwise noted)	2002	2001	% Change
Revenue	**94.3**	120.6	(22)
Net revenue	**28.9**	26.9	7
Operating income	**8.8**	8.2	7
Operating statistics [1]			
Volume of natural gas distributed			
Sales (Bcf)	**14.2**	13.0	9
Transportation (Bcf)	**7.6**	7.9	(4)
Degree day variance (percent) [2]	**7.8**	(3.4)	–
Number of customers [3]	**58,499**	57,542	2

(1) Excludes Inuvik Gas Ltd.

(2) Variance from 20 year average. Positive variances are favourable

(3) At December 31

The decrease in Natural Gas Distribution revenue in 2002 was largely due to the impact of lower natural gas prices during 2002. Colder than normal weather in 2002 when compared to warmer than normal weather in 2001 resulted in higher sales volumes which partially offset the impact of the lower natural gas price.

AltaGas Utilities' revenue is affected by changes in the market price of natural gas. However, profitability is unaffected by changes in the cost of gas as AltaGas Utilities, subject to approval by the Alberta Energy and Utilities Board (AEUB), is permitted to pass the actual cost of natural gas through to its customers. Consequently, it is more relevant to view revenue net of the cost of gas. The majority of Natural Gas Distribution net revenue is generated from AltaGas Utilities. Net revenue for AltaGas Utilities for the year ended December 31, 2002 was seven percent higher than for 2001. This increase in net revenue is due to weather conditions which were 7.8 percent colder than the 20 year rolling average in 2002 compared to 2001 which were 3.4 percent warmer than the 20 year rolling average.

Natural gas distribution companies are provincially regulated as to natural gas tariffs for sales and transportation. The AEUB approves AltaGas Utilities' customer rates based on anticipated sales as well as the revenue required to recover estimated costs of service and a fair return on the rate base. The rate base generally consists of the aggregate of the utility's approved investment in plant, property and equipment in service less accumulated depreciation plus an allowance for working capital. The net rate base excludes "no-cost capital" which is contributions in aid of construction from customers and grants from governments. AltaGas Utilities filed a general rate application in September 2000 for the years 2000, 2001 and 2002. A decision on the application by the AEUB was received in early 2002. There were no material adjustments required in 2002 from the decision as a provision for a rate reduction was made in 2001.

Net revenue for Inuvik Gas Ltd. (IGL) was $0.4 million for the years ended December 31, 2002 and 2001. At December 31, 2002 IGL had a customer base of 616 compared to 555 at December 31, 2001. Increased sales from new customers offset the reduced sales volumes from warmer weather in 2002 compared to 2001.

The natural gas distribution business is highly seasonal with the majority of AltaGas' natural gas deliveries occurring during the winter heating season from November to March. The majority of natural gas sales are to the residential and small commercial markets that are weather sensitive. Gas sales during the winter typically account for approximately two-thirds of annual gas distribution revenue, resulting in strong first and fourth quarter results and second and third quarters that show either small profits or losses. AltaGas Utilities' service area experienced unusually cold weather in the second quarter of 2002.

Operating income increased due to colder than normal weather offset by higher operating and administrative expenses primarily related to increased insurance and employee benefit costs.

Consolidated Expenses

($ millions)	2002	2001	% Change
Operating and administrative	**74.2**	64.4	15
Amortization	**35.8**	27.2	32
Interest expense	**18.1**	15.9	14
Income taxes	**13.1**	8.9	47

Operating and Administrative

Approximately 70 percent of the increase in AltaGas' operating and administrative expenses related to an increase in administrative costs required to support AltaGas' growth in field gathering and processing, extraction, transmission and power. The remaining 30 percent related to an increase in operating expenses primarily from the field gathering and processing component due to the full year impact of the 2001 field gathering and processing facility expansions and acquisitions. The acquisition of the Suffield transmission pipelines and Wabasca field gathering and processing facilities, and the start up of the Joffre ethane extraction plant will increase operating and administrative costs for 2003.

Amortization

The increase in amortization primarily relates to the acquisition of the PPA on December 28, 2001. The remaining increase in amortization reflects the full year impact of activity largely undertaken during 2001 including the investment in expansions of existing field gathering and processing facilities, well tie-ins and the acquisition of new facilities and oil and natural gas production. Amortization will continue to increase further in 2003 due to the late 2002 acquisition of the Suffield transmission pipelines and Wabasca field gathering and processing facilities, the start-up of the Joffre ethane extraction plant and the expansion of the Encana-operated Empress extraction plant.

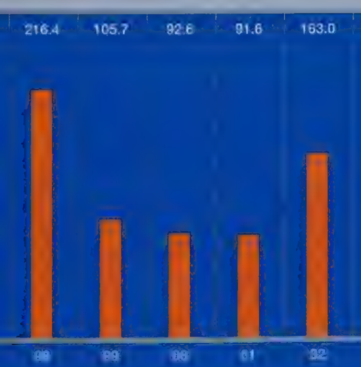
Interest Expense

AltaGas' interest expense increased in 2002 due to higher average debt balances outstanding throughout the year partially offset by lower interest rates. The higher debt levels in 2002 were primarily attributable to the debt incurred to fund the purchase of the PPA on December 28, 2001 and the funding of 2001 capital construction projects. Offsetting increases in debt were $58.8 million in gross proceeds from the June 2002 equity offering and $70.8 million in funds generated from operations. AltaGas' weighted average cost of borrowing decreased to 5.6 percent in 2002 compared to 6.7 percent in 2001 due to a larger proportion of the debt in 2002 being lower cost floating rate debt.

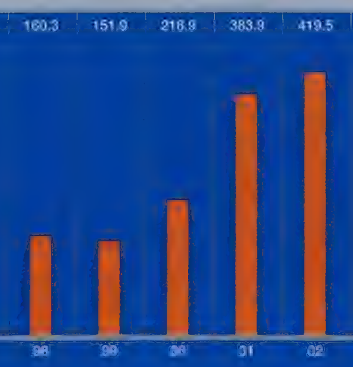
Income Tax

Income tax expense increased for 2002 compared to 2001 due to higher net income, largely from the PPA, and due to the increase in large corporations tax on an increased capital base. The majority of the income was not cash taxable due to the capital cost allowance available as a result of capital investment in gathering and processing operations. The field gathering and processing business qualifies for federal resource allowance, which reduces the effective tax rate of income tax. Income tax expense was provided at an effective rate of 31.29 percent in 2002 compared to 32.47 percent in 2001. The reduction in the effective rate was primarily related to the reduction in the federal and provincial statutory rates.

NET ADDITIONS TO CAPITAL ASSETS
($ Millions)



TOTAL DEBT
($ Millions)



Net Additions to Capital Assets

($ millions)	2002	Reclassify Segments	2001	2000	1994 –1999	Total
Gathering and Processing	**157.8**	(30.3)	86.2	88.2	280.7	582.6
Energy Services	**1.5**	30.3	–	–	–	31.8
Natural Gas Distribution	**3.7**	–	5.4	4.4	152.3	165.8
	163.0	–	91.6	92.6	433.0	780.2

Capital assets grew to $780.2 million in 2002 from $617.2 million in 2001. Net additions to capital assets of $30.3 million were reclassified from the Gathering and Processing segment to the Energy Services segment in 2002 to align with the current reportable business segments.

The majority of the 2002 capital invested in the Gathering and Processing segment was related to the acquisition of the Suffield transmission pipelines and Wabasca field gathering and processing facilities for $114.7 million. The Company invested $22.9 million in the construction of the Joffre ethane extraction plant which began to produce natural gas liquids in December 2002. Interest of $0.7 million was capitalized to the cost of construction of the Joffre facility during 2002.

The Natural Gas Distribution segment net additions to capital assets are associated with expansions in existing franchise areas, new subdivision development and routine system betterment projects. Capital assets are net of customer contributions, government grants and asset retirements.

Energy Services Arrangements and Contracts

On December 28, 2001 AltaGas, through the ASTC Power Partnership, acquired a 50 percent interest in the 706 megawatt Sundance B power purchase arrangement associated with two units of the Sundance B power generation plant. The Company invested $111.9 million for the right to purchase and sell 353 megawatts of power.

The Electric Utilities Act (EUA) provides the framework for Alberta's electric utility industry. Under the EUA, on January 1, 2001 existing generation was deregulated and auctioned by the Government of Alberta through a system of long-term PPAs. The ASTC Power Partnership is obligated to pay TransAlta Utilities Corporation (TransAlta), the owner of the power generation units, fixed and variable costs, including a fair return on common equity over the remaining term of the PPA to December 31, 2020.

LIQUIDITY AND CAPITAL RESOURCES

AltaGas believes that its access to debt and equity markets, unutilized bank credit facilities and funds generated from operations will provide the Company with access to sufficient capital resources and liquidity to fund existing operations, dividend distributions, and acquisition and expansion opportunities in 2003. A description of the Company's credit facilities is provided in Notes 7 and 8 to the consolidated financial statements.

Funds generated from operations in 2002 increased 41 percent to $70.8 million from $50.2 million in 2001. The increase in 2002 funds generated from operations primarily reflects higher earnings.

AltaGas had a working capital deficit of $27.2 million compared to a deficit of $66.3 million at the end of 2001. The 2001 working capital deficit was created by drawing $100.0 million against a bridge credit facility to fund the acquisition of the PPA in late December 2001. In 2002 the working capital deficit decreased due to proceeds from the June 2002 equity offering and funds generated from operations being applied to reduce the bridge credit facility, offset by capital expenditures.

FINANCING ACTIVITIES

The use of debt or equity funding is determined by AltaGas on the basis of a target capital structure and is determined by considering the norms and risks associated with each of its business components and segments. AltaGas Services Inc. funds all subsidiary borrowings. The Company's long-term target is to maintain debt at approximately 50 to 55 percent of total capital, which reflects the stability of AltaGas' earnings from its diversified portfolio of assets. AltaGas believes this target enables the Company to take advantage of attractive investment opportunities when they arise. AltaGas' credit facility agreements and the Company's trust indenture allow for a debt to total capitalization ratio of 65 percent.

In December of 2002 AltaGas acquired the Suffield transmission pipelines and Wabasca field gathering and processing facilities for $114.7 million and in December 2001 AltaGas acquired the PPA for $111.9 million. The acquisitions in both years were fully funded by debt. Due to the late December closing of the acquisition, the increase in debt is reflected on the balance sheet, but there is minimal income earned in 2002 from the acquired assets. This influenced debt ratios at the end of 2002 and 2001. Debt as a percentage of total capitalization and debt to EBITDA for 2002 were 56 percent and 4.4 times, respectively. When debt and income associated with the Suffield transmission pipelines and Wabasca field gathering and processing facilities acquisitions is removed, debt as a percentage of total capitalization and debt to EBITDA improve to 48 percent and 3.2 times, respectively. For 2001 debt as a percentage of total capitalization and debt to EBITDA were 60 percent and 5.4 times, respectively. When debt and income associated with the PPA acquisition is removed, debt as a percentage of total capitalization and debt to EBITDA improve to 51 percent and 3.9 times, respectively.

On January 10, 2003, AltaGas filed a prospectus to renew its Medium Term Note (Notes) program initiated on September 27, 2000. The Notes may be issued from time to time over 25 months in the aggregate principal amount of up to $250.0 million. The Notes will have maturities of not less than one year and will be offered at prices and contain such other terms as may be determined at the time of issue. The net proceeds from the issue of the Notes will be added to the general funds of the Company to be used to reduce outstanding indebtedness, to finance capital expenditures and investments of the Company and for general corporate purposes. In 2000 the Company issued $100.0 million of unsecured Notes to finance capital expenditures and replace floating rate debt. These Notes mature on October 4, 2005 and have a coupon rate of 7.28 percent.

AltaGas maintains investment grade credit ratings with two rating agencies. The Dominion Bond Rating Service rates the AltaGas' Notes at BBB (low) with a stable trend, down from BBB in 2001. Standard and Poor's (S&P) rates AltaGas' senior unsecured debt at BBB- and the long-term Company credit at BBB- with a negative outlook. The rating agencies confirmed their ratings on the Notes on January 10, 2003 in conjunction with AltaGas' filing of the renewal Medium Term Note Shelf Prospectus.

AltaGas implemented a Normal Course Issuer Bid through the facilities of The Toronto Stock Exchange on December 1, 2000. The Company renewed its Normal Course Issuer Bid for an additional 12 month period commencing December 2, 2002. Under the terms of the Normal Course Issuer Bid, the maximum number of AltaGas common shares the Company may purchase in open market transactions is 1,808,979 representing approximately five percent of the 36,179,578 AltaGas common shares outstanding as at November 26, 2002. AltaGas may make purchases of common shares from time to time during the course of the Normal Course Issuer Bid when management is of the view that the acquisition of such shares is the most appropriate use of AltaGas' funds. Purchases are financed from cash on hand or credit facilities. During the period from December 1, 2001 through December 31, 2002 no shares were purchased. Shareholders may obtain a copy of the Notice of Intention to make a Normal Course Issuer Bid that the Company filed with The Toronto Stock Exchange by contacting AltaGas.

As at December 31, 2002 the number of outstanding shares is 45,237,092, up from 38,495,877 at December 31, 2001. On June 7, 2002 AltaGas closed a public offering of 6,325,000 common shares, raising gross proceeds of $58.8 million. During 2002 proceeds from the issuance of equity to employees as a result of stock options exercised was $1.9 million compared to $1.4 million in 2001.

AltaGas declared its first quarterly cash dividend on January 11, 2001. Total dividends of $0.28 per fully paid common share and preferred participating share in the capital stock of the Company were paid during the year ended December 31, 2002 compared to $0.18 per share during the year ended December 31, 2001. On August 13, 2002 the Board increased the quarterly dividend per share to $0.08 per quarter. This is an increase from the quarterly dividend of $0.06 per share paid each quarter end from September 2001 to June 2002 and an increase from $0.03 per share paid per quarter in March and June of 2001. Dividends are reviewed periodically by the Board of Directors, giving consideration to AltaGas' growth related initiatives, financial position, financing requirements, cash flow and other relevant factors.

To partially fund its $114.7 million acquisition of the Suffield transmission pipelines and Wabasca field gathering and processing facilities, AltaGas extended its $50.0 million non-revolving bridge credit facility to March 31, 2003. The balance of the acquisitions were financed through the Company's extendible revolving credit facility. At year end 2002 the total drawn on AltaGas' bank facilities was $319.5 million. Letters of credit totaling $18.9 million were also outstanding on the Company's credit facilities. AltaGas expects to repay the bridge credit facility on March 31, 2003. Funds for debt retirements are generated through cash from operations, the issuance of replacement debt or share capital.

ACCOUNTING CHANGES

Goodwill

Effective January 1, 2002 the Company adopted the new recommendation of the Canadian Institute of Chartered Accountants with respect to goodwill and other intangible assets. The recommendation requires that goodwill no longer be amortized but be tested for impairment at least annually. Any permanent impairment in the value of goodwill is charged to earnings. The new method has been applied prospectively. The impact on the Company's financial statements in 2002 was not significant due to the small amount of goodwill recorded in the accounts at December 31, 2001.

Stock Based Compensation Plan

The new recommendation of the Canadian Institute of Chartered Accountants for stock based compensation plan was effective for the Company as of January 1, 2002. This new recommendation requires pro forma disclosure of the effect of fair value accounting for stock options where the fair value method is not applied. The Company continues to follow the intrinsic value method. Based on the number and fair value of options granted during the year ended December 31, 2002, the effect on net income would not be significant and there would be no effect on net income per share.

RISK MANAGEMENT

AltaGas' risk management activities are conducted in accordance with policies and guidelines established by the Board of Directors. The Company is exposed to risks resulting from changes in commodity prices and interest rates. Additionally, AltaGas faces other risks including payment default by its customers, operational and industry risks related to its midstream facilities, and risks stemming from regulatory approvals and change. AltaGas also has a responsibility to maintain compliance with environmental laws and regulations.

Commodity Price Risk and Credit Risk Measurement, Monitoring and Reporting

AltaGas is exposed to market risks resulting from changes in commodity price. The Company manages its exposure to these risks through the use of various physical and financial instruments. The Company's Commodity Risk Management Policy details the parameters used to measure, monitor and report commodity price risks. It also includes risk management guidelines and objectives, risk tolerance and approved products. This policy prohibits the use of physical and financial instruments for speculative purposes.

AltaGas uses a variety of risk metrics to highlight areas of market and credit risk exposures. Through regular monitoring and reporting of the metrics to management, AltaGas takes steps to mitigate market and credit risk.

Commodity Price Risk

Natural Gas and Natural Gas Liquids Prices

AltaGas buys natural gas for sale to various markets. The purchase price paid to producers at field plants is a netback price resulting from the market price achieved, less direct transportation and a fixed fee to AltaGas. In cases where AltaGas purchases or sells natural gas at a fixed price, it enters into offsetting transactions to lock in margins and mitigate risk.

Contract arrangements at AltaGas' extraction facilities provide for both fee for service and margin based revenue. Approximately 70 percent of all December 31, 2002 inlet volumes processed capture a fee for service and bear no commodity price risk. The margin received from processing the remaining inlet volumes is subject to the spread between the price received for the natural gas liquids (NGLs) extracted and the price paid for the natural gas purchased to make up the heating value of the NGLs extracted, after subtracting operating costs. If commodity prices or operating costs make NGL extraction uneconomical, the NGLs may be reinjected or the facilities shut in.

Electricity Prices

AltaGas, through the ASTC Power Partnership, has a 50 percent interest in a 706 megawatt PPA which provides the right to purchase power from the coal-fired Sundance B power generation plant. AltaGas' revenue from sales related to the PPA is subject to Alberta electricity market factors such as fluctuating supply and demand, which may be affected by weather, customer usage, economic activity and growth. AltaGas reduces its exposure to floating electricity prices by supplying internal electrical demand requirements and locking in margins with financial instruments at levels consistent with the Company's hedging strategy. The hedging strategy targets the optimal balance between operating margin certainty and operational flexibility and is targeted at 65 percent for three to five years out.

Credit Risk

AltaGas is exposed to credit-related losses in the event that counterparties to contracts fail to fulfill their present or future financial obligations to AltaGas. The Company minimizes counterparty risk by conducting credit reviews on clients prior to providing services, by participating in contract negotiations to include credit mitigation clauses and by obtaining financial or performance assurances from clients. AltaGas provides an allowance for doubtful accounts in the normal course of its business.

Interest Rate Risk

AltaGas targets to have a minimum 70 to 75 percent of its debt at fixed interest rates. AltaGas reduces financing costs and minimizes the effect of future interest rate movements on its cash flows through the use of interest rate swaps and through fixed rate debt alternatives such as the Company's Medium Term Note program. At December 31, 2002 the Company had fixed interest rates on $70.0 million of its floating rate debt through interest rate swaps. At year end approximately 40 percent of the Company's total debt, including its Medium Term Notes and swaps, was at fixed interest rates as compared to 53 percent at December 31, 2001. The fixed rate portion of debt at year end 2002 was lower than the target range due to the additional floating rate debt incurred to finance the acquisition of the Suffield transmission pipelines and Wabasca field gathering and processing facilities on December 19, 2002.

Operational Risk

AltaGas' operations are subject to the risks normally associated with the operation and development of natural gas facilities and pipelines, including unusual or unexpected environmental and safety conditions, occurrence of acts of civil disobedience or disruption which could result in personal injuries, loss of life and damage to property. The Company minimizes these risks through safety programs and risk management, including insurance coverage at levels maintained by prudent plant owner operators. In addition, the Company believes that operational risk is best managed by maintaining control over the timing of capital expenditures, operational decisions and costs by becoming the operator of the facilities in which it invests. At the end of 2002, AltaGas operated 90 percent of the facilities in which it had an interest.

Throughput at AltaGas' field gathering and processing facilities is influenced by producers' drilling activities, which are often dependent on the price of natural gas. AltaGas actively pursues opportunities to maintain or increase throughput at all of its field gathering and processing facilities and has been successful in offsetting natural production declines. Some of AltaGas' gathering and processing contracts provide for dedicated lands or areas of mutual interest or minimum volume throughput. These provisions mitigate the impact of volume declines, generate additional volumes for gathering and processing at its facilities and encourage expansion into areas where AltaGas' facilities are located. The majority of AltaGas' facilities are skid-mounted and can be moved to areas with favourable production potential should a particular area's production decline significantly.

In the power business, TransAlta is obligated to provide AltaGas financial compensation to a stated target availability level regardless of actual generation of electricity from the Sundance B units. This is accomplished by a financial payment on the difference of actual generation below target availability level multiplied by the Rolling 30-Day Average Pool Price (RAPP). During these undergeneration periods AltaGas has financial exposure on the difference between the Alberta spot price and the RAPP. This exposure is minimized through two unit diversification, unit contingent hedges, basis swaps and/or replacement power purchases.

The other significant operational risk relates to potential force majeure events. In the event of a force majeure that is significant enough to cause termination of the PPA, the buyer of the PPA is entitled to a Termination Payment from the Balancing Pool equal to the net present value of the amortized PPA purchase price to that date. AltaGas has further minimized the risk of a force majeure event to a particular unit by diversifying its supply over two Sundance B units, entering into unit contingent hedges and executing independent backstopping arrangements to supply electricity in the event of a force majeure.

Regulatory

AltaGas faces utility regulatory risk through its 100 percent ownership of AltaGas Utilities. The AEUB approves AltaGas Utilities' customer rates based on anticipated sales as well as the revenue required to recover estimated costs of service and a fair return on the rate base. In 2002 the AEUB allowed AltaGas Utilities a 9.7 percent rate of return on common equity and a common equity component of 25 percent of the gross rate base (41 percent of the net rate base).

In November 2002 AltaGas Utilities filed the second phase of its current General Rate Application (GRA) with the AEUB. Regulatory practice in the Province of Alberta is for the utility and its customers to negotiate an agreement and file the agreement with the AEUB for approval. Negotiations commenced in January 2003 and are in process. In October 2001, the AEUB issued a decision stemming from a generic proceeding held to deal with, in part, gas rate unbundling. AltaGas Utilities was the first natural gas utility in Alberta to have issues of gas rate unbundling as part of its GRA since the AEUB's unbundling decision. The issue of rate unbundling carries with it a small but potential risk of unrecoverable or stranded costs. AltaGas Utilities will pursue an unbundling methodology that will mitigate this risk.

Environment

AltaGas is committed to meeting its responsibilities to protect the environment wherever it operates. The Company's mandate is to fully comply with all environmental laws and regulations and to immediately and efficiently deal with any environmental incidents. AltaGas believes that the cost of complying with current environmental laws and regulations has not had and will not have a material effect on the Company's financial position.

In respect of the Kyoto Protocol on Climate Change (Kyoto), although the implementation of federal and provincial legislation and related regulations are likely to take several months and perhaps years to enact, AltaGas is embarking on a program to quantify its current level of greenhouse gas emissions. In this way, the Company will be in a position to proactively develop a strategy to reduce greenhouse gas emissions consistent with federal and provincial legislation and regulations as they are enacted and communicated. At this time, AltaGas cannot definitively determine whether or not the impacts of Kyoto will have a material effect on its financial position.

OUTLOOK

The Petroleum Services Association of Canada predicts that 17,500 wells will be drilled in 2003, 11 percent higher than 2002 as a result of current strong commodity prices. Increasing natural gas prices are encouraging producers to spend more capital in exploration and development.

AltaGas' extraction business will continue to grow in 2003. In addition to the investment in the Joffre Ethane Extraction Plant (Joffre) contributing a full year of operating income in 2003, the Company has committed $5.5 million to an expansion of the EnCana-operated Empress (Empress) extraction plant located near Empress, Alberta. Joffre began operations on December 17, 2002 and Empress is expected to be in service in the third quarter of 2003. The investment in these two projects will provide a mix of stable fee for service and margin-based revenue.

On December 19, 2002 AltaGas acquired the Wabasca System in Northeastern Alberta. The Wabasca system includes eight field gathering and processing facilities and opens up a new operating area for AltaGas. The Wabasca System adds capacity of 75 Mmcf/d and current throughput of approximately 35 Mmcf/d of natural gas. AltaGas sees substantial growth opportunities as significant large blocks of undeveloped land exist within the existing 60-township catchment area of the gathering system.

On December 19, 2002 AltaGas acquired 100 percent of the shares of the EnCana Suffield Gas Pipeline Inc. (now AltaGas Suffield Pipeline Inc.) which owns two natural gas pipelines at Suffield Alberta. The two pipelines each have 200 Mmcf/d of transmission capacity and current throughput of approximately 220 Mmcf/d. AltaGas sees an expanded transportation role for the Suffield transmission pipelines and will work with potential shippers to develop transportation opportunities to maximize the pipelines' capabilities.

AltaGas expects to deliver strong power results in 2003 as a result of the Company's program to manage fluctuations in the price of power by locking in power margins through forward sales. Substantially all of AltaGas' power has been sold forward for 2003 and the Company expects to realize between $43.00 per MWh and $45.00 per MWh.

Heritage Gas Limited (Heritage Gas), a Nova Scotia based company owned by AltaGas (24.9 percent), SaskEnergy International Inc., a subsidiary of SaskEnergy Inc. (50.1 percent) and Scotia Investments Limited, a private investment holding company (25.0 percent) filed an application on August 16, 2002 for the right to distribute natural gas to certain counties in Nova Scotia. On February 7, 2003 a decision was rendered by the Nova Scotia Utility and Review Board granting Heritage Gas a full regulation class franchise for a period of 25 years. Heritage will make a decision about accepting the franchise and associated conditions by early March 2003. If Heritage Gas accepts the franchise and associated conditions, Heritage Gas expects to have a limited number of customers on natural gas service during 2003 and an aggressive marketing campaign underway culminating in significantly more customers being connected in 2004 and beyond.

SENSITIVITY ANALYSIS

The following table illustrates the anticipated effects of economic and operational changes on AltaGas' 2003 net income.

Factor	Increase or Decrease	Increase or Decrease Net Income Per Diluted Share
Field gathering and processing volumes at existing facilities	Five Mmcf/d	$ 0.014
Field gathering and processing operating margin per mcf	One cent	$ 0.027
Electricity prices	$1 per MWh	$ 0.006
Natural gas prices	$0.50/mcf	$ 0.005
Natural gas liquids fractionation spread	$1 per Bbl	$ 0.004
Interest rates	25 basis points	$ 0.004
Degree days (1)	Ten percent	$ 0.019
Change in allowed ROE (2)	One percent	$ 0.008

(1) Degree day – The cumulative extent to which the daily mean temperature falls below 18 degrees Celsius. Normal degree days are based on a 20 year rolling average. The 10 percent sensitivity is relative to the 20 year rolling average.

(2) The change in allowed ROE pertains to AltaGas Utilities Inc.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management recognizes that it is responsible for the preparation of the consolidated financial statements and is satisfied that these statements have been prepared using Canadian generally accepted accounting principles and are within reasonable limits of materiality. Further, management is satisfied that the financial information contained in this annual report is consistent with that presented in the consolidated financial statements. The Company's internal controls and systems are designed to provide reasonable assurance that its assets are safeguarded and to facilitate the preparation of relevant, reliable and timely information.

External auditors have been engaged by the Company to examine the consolidated financial statements. The Audit Committee of the Board of Directors has reviewed these statements with the external auditors and management and has reported its findings to the Board. The Board of Directors, on the recommendation of the Audit Committee, has approved the consolidated financial statements contained in this report.

David W. Cornhill
Chairman of the Board, President and
Chief Executive Officer
February 14, 2003

Patricia M. Newson
Senior Vice President Finance and
Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of AltaGas Services Inc.

We have audited the consolidated balance sheets of AltaGas Services Inc. as at December 31, 2002 and 2001 and the consolidated statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP
Chartered Accountants

Calgary, Canada
February 14, 2003

CONSOLIDATED BALANCE SHEETS

as at December 31 ($ thousands)	2002	2001
ASSETS		
Current assets		
Accounts receivable	$ 98,996	$ 53,289
GST and income taxes recoverable	–	10,856
Inventory	3,770	3,161
Other	5,180	11,884
	107,946	79,190
Capital assets (note 3)	647,703	508,859
Energy services arrangements and contracts (note 4)	107,030	112,268
Goodwill (note 5)	18,860	815
Future income taxes (note 12)	208	209
Investments and other assets (note 6)	7,450	7,655
	$ 889,197	$ 708,996
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$ 77,165	$ 43,343
Short-term debt (note 7)	50,555	100,000
Other	7,397	2,114
	135,117	145,457
Long-term debt (note 8)	368,943	283,866
Deferred revenue and other	807	1,957
Future income taxes (note 12)	48,070	17,513
	417,820	303,336
Shareholders' equity		
Share capital (note 10)	264,290	205,046
Retained earnings	71,970	55,157
	336,260	260,203
	$ 889,197	$ 708,996

Commitments (notes 4, 7, 9 and 11)

See accompanying notes to the consolidated financial statements

Approved on behalf of the Board of Directors:

Director

Director

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

for the years ended December 31 ($ thousands except per share amounts)	2002	2001
REVENUE		
Operating	$ 483,459	$ 488,839
Other	625	936
	484,084	489,775
EXPENSES		
Cost of sales	314,210	354,734
Operating and administrative	74,179	64,423
Amortization		
Capital assets	29,773	27,097
Energy services arrangements and contracts	6,026	145
	424,188	446,399
Operating income	59,896	43,376
Interest expense (notes 7, 8 and 9)		
Short-term debt	2,589	–
Long-term debt	15,559	15,828
Income before income taxes	41,748	27,548
Income taxes (note 12)	13,062	8,944
Net income	28,686	18,604
Retained earnings, beginning of year	55,157	43,933
Dividends	(11,873)	(6,898)
Common shares purchased for cancellation (note 10)	–	(482)
Retained earnings, end of year	$ 71,970	$ 55,157
Net income per share (note 10)		
Basic	$ 0.68	$ 0.49
Diluted	$ 0.67	$ 0.49

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended December 31 ($ thousands)	2002	2001
Cash from operations		
Net income	$ 28,686	$ 18,604
Items not involving cash:		
Amortization	35,799	27,242
Future income taxes	6,840	6,275
Gain on sale of assets and investments	(997)	(2,479)
Equity income	371	28
Other	111	549
Funds generated from operations	70,810	50,219
Increase (decrease) in deferred revenue and other	(1,150)	97
Net change in non-cash working capital (note 13)	5,621	(4,915)
	75,281	45,401
Investing activities		
Acquisition of capital assets (note 2)	(118,107)	–
Additions of capital assets	(40,635)	(96,834)
Disposition of capital assets	1,750	4,571
Acquisition of energy services arrangements and contracts	(789)	(111,938)
Acquisition of investments and other assets	(2,145)	(2,273)
Disposition of investments and other assets	2,691	1,937
	(157,235)	(204,537)
Financing activities (note 13)		
Increase in operating loans	35,632	166,938
Dividends	(11,873)	(6,898)
Net proceeds from issuance of common shares (note 10)	58,195	1,359
Common shares purchased for cancellation (note 10)	–	(2,263)
	81,954	159,136
Change in cash	–	–
Cash, beginning of year	–	–
Cash, end of year	$ –	$ –

See accompanying notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts in thousands of dollars)

NOTE 1. Summary of Significant Accounting Policies

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies are summarized below:

Basis of Presentation

These consolidated financial statements include the accounts of AltaGas Services Inc. (AltaGas or the Company) and all of its wholly-owned subsidiaries, and its proportionate interest in the ASTC Power Partnership.

The Company's subsidiary, AltaGas Utilities Inc. is engaged in the distribution and sale of natural gas in various communities located within the Province of Alberta and is regulated by the Alberta Energy and Utilities Board (AEUB). These regulations cover such matters as tariffs, rates, construction, operations, financing and accounting. AltaGas Utilities Inc.'s accounting policies conform to generally accepted accounting principles in the utility industry and reflect the policies established from time to time by the AEUB.

The Company has entered into joint venture arrangements, and accordingly the accounts reflect only the Company's proportionate interest in these activities.

Certain comparative figures have been reclassified to conform to the current financial statement presentation.

Inventory

Materials and supplies are valued at the lower of average cost and replacement cost. Natural gas inventories are valued at the lower of cost or market.

Capital Assets and Amortization

Capital assets are recorded at cost, except for regulated natural gas distribution assets which are recorded at cost plus an allowance, at rates authorized by the AEUB, for interest during construction. Contributions in aid of construction of natural gas distribution assets are deducted from the cost of acquiring property, plant, and equipment, with subsequent amortization calculated on the net cost. Interest incurred to finance long term construction projects is capitalized during the construction period.

Amortization, based on original cost without regard to salvage values, is calculated on a straight-line basis over the estimated useful lives of the capital assets, except for regulated natural gas distribution assets, where amortization is calculated on a straight-line basis at rates approved by the AEUB:

Gathering and Processing	
Gathering and processing assets	15 – 25 years
Other assets	1 – 5 years
Natural Gas Distribution	
Natural gas distribution assets	2 – 3 percent
Other assets	7 percent

Future removal and site restoration costs in excess of expected salvage values are charged to income over the expected useful life of the gas plant or gathering line. Decommissioning costs, potential environmental clean-up costs and costs to restore gas plant and gathering line sites to original condition are estimated based on costs and regulations in effect at year end. These costs and salvage values are evaluated annually.

AltaGas follows the full cost method of accounting for oil and gas exploration and development activities. Capitalized costs are accumulated in a single cost centre and amortized to income over the production life of proved reserves.

Energy Services Arrangements and Contracts

Energy services arrangements and contracts are recorded at cost and amortized on a straight-line basis over their term.

The power purchase arrangement (PPA) is the right to the committed generating capacity of two regulated Alberta generating units. The Company is obligated to make payments to the owners of the underlying generating units over the remaining term of the PPA to December 31, 2020. Such amounts are recorded as cost of sales as incurred. Revenue from the sale of the committed electricity is recorded when delivered.

Goodwill

Effective January 1, 2002 the Company adopted the new recommendation of the Canadian Institute of Chartered Accountants with respect to goodwill. The recommendation requires that goodwill no longer be amortized but be tested for impairment at least annually. Any permanent impairment in the value of goodwill is charged to earnings. The new method has been applied prospectively. Previously goodwill was amortized over 30 years. The effect of adopting this accounting recommendation was a reduction in amortization during 2002 of $28 thousand and an increase in net income for the year of $18 thousand.

Goodwill represents the excess purchase price of an acquired business over the fair value of the net assets acquired. Goodwill is tested at least annually for impairment by comparing the fair value of the associated reporting unit with its book value.

Short-term Debt

Effective January 1, 2002 AltaGas prospectively adopted the new recommendation of the Canadian Institute of Chartered Accountants with respect to the classification of callable debt on the balance sheet. As a result, the Company's demand operating credit facility has been reclassified as current.

Long-term Investments

Investments in companies in which AltaGas has the ability to exercise significant influence are accounted for by the equity method. Other long-term investments are recorded at cost. An other than temporary impairment in value of an investment is charged against income when determined.

Derivative Instruments

AltaGas enters into financial derivative contracts such as swaps and collars to manage exposure to fluctuations in commodity prices and interest rates. These contracts are designated as hedges and gains and losses relating to such contracts are deferred and recognized in the same period and financial statement category as the corresponding hedged transaction. If financial derivative contracts cease to be effective as hedges, any cumulative gains or losses arising prior to such time continue to be deferred over the period of the original hedged transaction. Changes in the fair value of the derivative contracts arising subsequent to where they are no longer effective as hedges are recognized as adjustments to income.

AltaGas also enters into commodity derivative contracts which require the future delivery of commodities at fixed prices. These contracts are not recognized in the financial statements until they are settled.

Revenue Recognition

Revenue for gathering and processing services is recorded as the services are rendered. Energy marketing revenue is recognized at the time the product is delivered.

Stock Based Compensation Plan

The Company follows the intrinsic value method of accounting for stock based compensation plans whereby no compensation expense is recognized for stock options granted to employees or directors unless the market value of the stock exceeds the options exercise price at the date of grant. Consideration paid by employees or directors on the exercise of stock options is credited to share capital. Options are issued at current market value, consequently no compensation expense is recorded.

Effective January 1, 2002 the Company prospectively adopted the new recommendation of the Canadian Institute of Chartered Accountants with respect to stock based compensation. This new recommendation requires pro forma disclosure of the effect of fair value accounting for stock options where the fair value method is not applied.

Pension Plans and Retirement Benefits

The cost of defined benefit pension and other retirement benefit plans is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. For purposes of calculating the expected return on plan assets, those assets are valued at fair value. The excess of the net actuarial gain or loss over 10 percent of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service life of the employee group. Transitional obligations are being amortized over the remaining service life of active employees.

Income Taxes

Except for rate-regulated natural gas distribution subsidiaries, income taxes are calculated using the liability method of tax accounting. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that are anticipated to be in effect in the periods in which the differences are expected to be settled or realized.

Natural gas distribution income taxes are provided using the taxes payable method approved by the AEUB. In accordance with an AEUB decision, provision is made only for those income taxes currently payable and no future tax is recorded on the timing differences between accounting income and taxable income.

Per Share Information

Basic net income per share is calculated on the basis of the weighted average number of common and preferred participating shares outstanding during the year. Diluted net income per share is calculated as if the proceeds obtained upon exercise of options were used to purchase common shares at the average market price during the year.

Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the reported amounts of revenue and expenses during the reported period. By their nature, these estimates are subject to measurement uncertainty and may impact the financial statements of future periods.

NOTE 2. Acquisition

On December 19, 2002 AltaGas acquired all of the shares of EnCana Suffield Gas Pipeline Inc., comprising two natural gas transmission pipelines at Suffield, Alberta, and purchased eight natural gas gathering and processing systems in northeastern Alberta for a total of $118.1 million. The recommendations of the Canadian Institute of Chartered Accountants for Business Combinations apply to this acquisition. The purchase price of the business has been allocated to the individual assets and liabilities acquired based on their estimated fair value, with the exception of future income taxes which are recorded on an undiscounted basis. The excess of the recorded value of the future income tax liability over its fair value is offset through the recognition of goodwill. The results of operations have been included in the consolidated statement of income and retained earnings from the date of acquisition.

Net Assets Acquired	
Capital assets	$ 122,690
Working capital	2,034
Goodwill	18,045
Future income taxes	(24,662)
	$ 118,107
Purchase Price	
Cash	$ 114,658
Transaction costs	3,449
	$ 118,107

NOTE 3. Capital Assets

	2002			2001		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Gathering and Processing						
Gathering and processing assets	**$ 574,447**	**$ 70,572**	**$ 503,875**	$ 418,484	$ 50,695	$ 367,789
Other assets	**8,072**	**2,474**	**5,598**	6,230	1,761	4,469
Energy Services						
Energy services assets	**29,833**	**6,051**	**23,782**	28,835	3,561	25,274
Other assets	**2,049**	**752**	**1,297**	1,500	550	950
Natural Gas Distribution						
Natural gas distribution assets	**141,457**	**43,873**	**97,584**	135,946	40,532	95,414
Other assets	**24,333**	**8,766**	**15,567**	26,185	11,222	14,963
	$ 780,191	**$ 132,488**	**$ 647,703**	$ 617,180	$ 108,321	$ 508,859

No charge for future removal and site restoration costs for natural gas processing plants and gathering lines was made to earnings for the years ended December 31, 2002 and 2001, as estimated salvage values are in excess of estimated removal and site restoration costs. Interest capitalized for the year ended December 31, 2002 was $746 thousand (2001 – no interest was capitalized).

NOTE 4. Energy Services Arrangements and Contracts

	2002	2001
Cost	$ 113,342	$ 112,615
Accumulated amortization	6,312	347
Net book value	$ 107,030	$ 112,268

AltaGas owns the PPA through its 50 percent interest in the ASTC Power Partnership (ASTC). ASTC is committed to purchase all of the power from the 706 megawatt capacity generating units. The investment in the PPA and its revenue and expenses thereunder are recorded on a proportionate basis.

NOTE 5. Goodwill

	2002	2001
Gathering and Processing		
Cost	$ 18,895	$ 850
Accumulated amortization	35	35
Net book value	$ 18,860	$ 815

During 2002 goodwill of $18.0 million resulted from the acquisition of all the shares of EnCana Suffield Gas Pipeline Inc. (note 2).

NOTE 6. Investments and Other Assets

	2002	2001
Common shares of public companies	$ 1,877	$ 2,663
Common shares of private companies	436	435
Equity accounted investments in common shares of private companies	298	666
Advances	2,259	1,315
Other	2,580	2,576
	$ 7,450	$ 7,655

At December 31, 2002 the quoted market value of the common shares of public companies was approximately $1.5 million (2001 – $3.1 million). The fair market value of investments in private companies is not reasonably determinable.

Advances at December 31, 2002 consist of a $2.3 million demand loan bearing interest at prime plus 3.5 percent. At December 31, 2002 the Company had no intention of demanding repayment of the loan.

NOTE 7. Short-term Debt

At December 31, 2002 the Company had a $50.0 million demand operating credit facility with a Canadian chartered bank. The loan bears interest at the lender's prime rate or at the bankers' acceptance rate plus a stamping fee. At December 31, 2002 the Company had drawn debt of $0.6 million and letters of credit of $8.8 million (2001 – $4.7 million) outstanding against the demand operating credit facility.

At December 31, 2002 the Company had a $50.0 million (2001 – $100.0 million) non-revolving bridge credit facility with a syndicate of Canadian chartered banks. The facility was fully drawn at December 31, 2001 and on June 7, 2002 a payment of $50.0 million reduced the facility to $50.0 million. The credit facility, which expires March 31, 2003, bears interest at the lender's prime rate plus a margin or at the bankers' acceptance rate plus a stamping fee.

At December 31, 2002 and 2001 the Company had a fully drawn $10.1 million extendible letter of credit facility with a Canadian chartered bank. The facility expires on December 11, 2003.

The prime lending rate at December 31, 2002 was 4.50 percent (2001 – 4.00 percent). The average rate on the Company's outstanding bankers' acceptances at December 31, 2002 was 4.09 percent (2001 – 3.31 percent).

NOTE 8. Long-term Debt

	2002	2001
Operating loans	**$ 268,943**	$ 183,866
Medium term notes	**100,000**	100,000
	$ 368,943	$ 283,866

Operating loans

At December 31, 2002, the Company had a $270.0 million (2001 – $220.0 million) extendible revolving term credit facility with a syndicate of Canadian chartered banks. Effective October 13, 2002 the facility was increased by $50.0 million, extended for an additional 364 days and an Alberta financial institution was added to the syndicate. The loan bears interest at the lender's prime rate or at the bankers' acceptance rate plus a stamping fee.

The extendible revolving term facility can be extended for an additional year on October 12, 2003 or can be converted by the Company on that date to a two year term loan. The term loan is repayable over the two year period or at the end of the two year term, depending on the bond rating category of the long-term unsecured senior indebtedness of the Company.

Medium Term Notes

On September 27, 2000 the Company filed a short form shelf prospectus in conjunction with a two year Medium Term Note program. On October 4, 2000 the Company issued $100.0 million of 7.28 percent Medium Term Notes pursuant to the program. Interest is payable semi-annually and the principal is due on October 4, 2005.

On January 10, 2003 the Company filed a short form shelf prospectus to renew its Medium Term Note program. Medium Term Notes may be issued in an aggregate principal amount of up to $250.0 million at prices and terms determined at the time of issue.

NOTE 9. Financial Instruments and Financial Risk Management

In the course of its normal operations the Company issues short and long term debt, and purchases and sells natural gas and power commodities. These activities result in exposures to fluctuations in interest rates and commodity prices. The Company uses financial derivative instruments that result in cash settlements to manage the price or cash flow risk that results from these activities. The Company does not make use of derivative instruments for speculative purposes.

The fair values of financial derivatives have been estimated using year-end market rates. These fair values approximate the amount that the Company would receive or pay if the instruments were closed out at these dates.

Commodity Price Risk Management

a) Natural Gas

The Company uses swap agreements to fix the price received on certain natural gas sales. At December 31, 2002 the Company had no intention of terminating any swap agreements prior to maturity.

At December 31 the Company had the following contracts outstanding:

Swaps	Fixed Price	Period	Notional Volume	Fair Value
2002	**$ 5.43/mcf**	**10 months**	**1.9 Mmcf/day**	**$ 7**
2001	$ 4.12/mcf	10 months	1.3 Mmcf/day	$ 214

b) Electricity Prices

Under the Power Purchase Arrangement AltaGas has an obligation to buy power at agreed terms and prices to December 31, 2020. The Company sells the power to the Power Pool of Alberta at spot prices and uses swaps and collars to fix the prices over time on a portion of the volumes. AltaGas' strategy is to lock in margins to provide predictable earnings. At December 31, 2002 the Company does not plan to terminate any derivatives prior to maturity.

At December 31 the Company had the following contracts outstanding:

Derivative instruments	Fixed Price (per MWh)	Period (months)	Notional Volume (MWh) Sales	Notional Volume (MWh) Purchases	Fair Value
2002					
Swaps and collars	**$ 40.32 to $ 64.00**	**12 to 27**	**3,556,563**	**–**	**$ (29,260)**
Swap	**$ 61.40**	**180**	**–**	**394,416**	**$ (1,908)**
2001					
Swap	$ 63.80	192	–	420,696	$ (1,600)

Interest Rate Risk Management

To hedge against the effect of future interest movements, the Company enters into interest rate swap agreements to fix a portion of its bankers' acceptances issued under credit facilities. At December 31, 2002 the Company had no intention of terminating any swap agreements prior to maturity.

At December 31 the Company had the following contracts outstanding:

Interest rate swaps	Period	Principal	Weighted Average Interest Rate	Fair Value
2002	**March 2004 to April 2005**	**$ 70,000**	**4.75%**	**$ (1,948)**
2001	January 2002 to April 2005	$ 102,000	4.46%	$ (2,300)

Credit Risk on Financial Instruments

Credit risk results from the possibility that a counterparty to a derivative in which the Company has an unrealized gain fails to perform according to the terms of the contract.

Credit exposure is minimized by entering into transactions only with credit worthy counterparties in accordance with established credit policies and practices. At December 31, 2002 AltaGas did not have a significant concentration of credit risk with any single financial instrument counterparty.

NOTE 10. Share Capital

Authorized:

- an unlimited number of common shares without nominal or par value.
- an unlimited number of preferred shares without nominal or par value.

Common Shares Issued:

	Number of Shares	Amount
December 31, 2000	29,225,299	$ 116,449
Issued for cash on exercise of options	695,678	1,359
Issued for compensation	8,500	55
Repurchased under Normal Course Issuer Bid and subsequently cancelled	(433,600)	(1,781)
December 31, 2001	29,495,877	$ 116,082
Issued for cash pursuant to public placement	6,325,000	58,823
Issued for cash on exercise of options	407,715	1,868
Issued for compensation	8,500	79
Less issue costs, net of tax	–	(1,526)
December 31, 2002	**36,237,092**	**$ 175,326**

Preferred Participating Shares Issued:

	Number of Shares	Amount
December 31, 2001 and 2002	**9,000,000**	**$ 88,964**
Total shares issued	**45,237,092**	**$ 264,290**

On September 30, 1999 the Company closed a private placement of 9,000,000 non-voting, preferred participating shares at $10.00 per share for gross proceeds of $90.0 million. These shares are convertible at the holder's option into common shares, one for one, any time prior to September 30, 2004. After that date, and no later than September 30, 2009, AltaGas may either redeem the participating shares or convert them to common shares. These shares share rateably with common shares in any dividend declared on or before September 30, 2002 and to a maximum of $1.00 per share per year thereafter. On conversion or redemption, or in the event of a liquidation, dissolution or winding-up of the Company, the participating shareholders are entitled to $10.00 per share and their share of the cumulative retained net income of AltaGas since September 30, 1999 with the annual earnings included per participating share being limited to $1.00 following September 30, 2002.

On November 24, 2000 the Board of Directors approved a Notice of Intention to make a Normal Course Issuer Bid, under which the Company could acquire over a one year period up to five percent of its outstanding common shares through the facilities of the Toronto Stock Exchange. On November 19, 2002 the Board of Directors renewed the Normal Course Issuer Bid for an additional twelve month period commencing December 2, 2002.

During 2001 AltaGas purchased and cancelled 433,600 of its common shares at an average price of $5.22 per share under the first Normal Course Issuer Bid program. The $482 thousand excess paid over the $1.8 million carrying value of these shares has been charged to retained earnings. During 2002 no shares were purchased under this program.

On June 7, 2002 AltaGas closed a public offering for 6,325,000 common shares at $9.30 per share. Proceeds net of share issue costs were $56.4 million.

The Company has an employee stock option plan under which both employees and directors are eligible to receive grants. At December 31, 2002 3,800,000 common shares are reserved for issuance under the plan. To December 31, 2002 options granted under the plan generally had a term of ten years to expiry and vested no longer than over a four year period. Currently, outstanding options are exercisable at various dates to the year 2012. Options outstanding under the plan have a weighted average exercise price of $7.66 and a weighted average remaining contractual life of 6.2 years.

Number of Options	Exercise Price	Expiry Date
257,777	$ 5.00 – $ 8.75	2003
275,849	$ 8.75 – $ 10.00	2004
115,250	$ 7.00 – $ 10.00	2009
141,625	$ 4.80 – $ 6.25	2010
618,175	$ 5.10 – $ 7.25	2011
262,000	$ 6.50 – $ 9.75	2012
1,670,676		

	2002		2001	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Stock options outstanding, beginning of year	**1,896,916**	**$ 6.83**	2,022,694	$ 5.17
Granted	**262,000**	**8.76**	663,000	6.97
Exercised	**(407,715)**	**4.58**	(695,678)	1.96
Cancelled	**(80,525)**	**7.26**	(93,100)	8.10
Stock options outstanding, end of year	**1,670,676**	**$ 7.66**	1,896,916	$ 6.83
Exercisable at year end	**847,246**	**$ 7.85**	1,017,417	$ 6.81

Based on the number and fair value of options granted during the year, the effect on net income of following the fair value method of accounting for stock options would not be significant and there would be no effect on net income per share.

The basic number of shares outstanding for the year ended December 31, 2002 was 42.3 million (2001 – 38.2 million) and the diluted number of shares outstanding for the year ended December 31, 2002 was 42.6 million (2001 – 38.3 million). During the years presented, outstanding stock options are the only dilutive instrument.

NOTE 11. Lease Commitments

Future minimum lease payments under operating leases for office space, office equipment, and automotive equipment are estimated as follows:

2003	$ 2,315
2004	2,371
2005	2,445
2006	2,540
2007	2,485
	$ 12,156

NOTE 12. Income Taxes

The income tax provision differs from the amounts which would be obtained by applying the combined Canadian base federal and provincial income tax rate to income before income taxes. These differences result from the following items:

	2002	2001
Income before income taxes	$ 41,748	$ 27,548
Statutory income tax rate (percent)	42.12	43.12
Computed income tax provision	$ 17,584	$ 11,879
Increase (decrease) in income taxes resulting from:		
Resource Allowance	(3,043)	(3,322)
Manufacturing and Processing Credit	(168)	(154)
Large Corporations Tax	973	815
Permanent differences between accounting and tax bases of assets and liabilities	269	100
Rate Reductions	(1,246)	(86)
Other	(1,307)	(288)
Income tax provision		
Current	6,222	2,669
Future	6,840	6,275
	$ 13,062	$ 8,944
Effective income tax rate (percent)	31.29	32.47

The tax effects of the significant components of temporary differences that give rise to future income tax assets and liabilities as at December 31, 2002 are as follows:

	2002		2001	
	Assets	Liabilities	Assets	Liabilities
Capital assets	$ –	$ 51,285	$ –	$ 18,273
Net operating losses unused for tax purposes	208	–	209	–
Deferred debt charges	–	91	–	92
Share issue costs	–	(812)	–	(806)
Other	–	(2,494)	–	(46)
	$ 208	$ 48,070	$ 209	$ 17,513

Future income tax expense and future income tax assets and liabilities have not been recognized for the Company's rate-regulated natural gas distribution subsidiary. Unrecognized future income tax expense for the year ended December 31, 2002 was $451 thousand (2001 – $14 thousand). The unrecognized future income tax liability at December 31, 2002 was $6.7 million (2001 – $6.2 million).

NOTE 13. Change in Non-cash Working Capital

	2002	2001
Accounts receivable	$ (45,707)	$ 48,885
GST and income taxes recoverable	10,856	(6,158)
Inventory	(609)	761
Other current assets	6,704	(7,776)
Accounts payable and accrued liabilities	33,822	(44,230)
Other current liabilities	5,283	(2,829)
Other	(663)	(5)
	9,686	(11,352)
Less decrease (increase) in capital costs payable	(4,065)	6,437
Net change in non-cash working capital from operations	$ 5,621	$ (4,915)

The following cash payments have been included in the determination of earnings:

	2002	2001
Interest paid	$ 18,856	$ 15,466
Income taxes paid	$ 1,837	$ 6,187

NOTE 14. Pension Plans and Retirement Benefits

Substantially all full-time employees of the Company's natural gas distribution subsidiary, AltaGas Utilities Inc., are members of one of two defined benefit non-contributory pension plans. AltaGas Utilities Inc. also has plans that provide other post-retirement benefits such as life insurance and health care.

	2002		2001	
	Pension Plans	Other Benefit Plans	Pension Plans	Other Benefit Plans
Accrued benefit obligation				
Balance, beginning of year	$ 8,069	$ 759	$ 7,044	$ 665
Experience loss (gain)	(69)	(12)	14	34
Current service cost	733	33	611	30
Interest cost	653	53	540	48
Benefits paid	(99)	(19)	(140)	(18)
Balance, end of year	9,287	814	8,069	759
Plan assets				
Fair value, beginning of year	8,093	–	6,527	–
Experience gain	–	–	576	–
Actual return on plan assets	(880)	–	578	–
Employer contributions	1,163	–	696	–
Benefits and expenses paid	(135)	–	(284)	–
Fair value, end of year	8,241	–	8,093	–
Funding surplus (deficit)	(1,046)	(814)	24	(759)
Unamortized transitional obligation	503	391	563	535
Unamortized past service costs	204	–	–	–
Unamortized experience loss (gain)	591	136	(538)	34
Accrued benefit asset (liability)	$ 252	$ (287)	$ 49	$ (190)

Included in the accrued benefit obligation and fair value of plan assets at year end are the following in respect of plans that are not fully funded:

	2002 Pension Plans	2002 Other Benefit Plans	2001 Pension Plans	2001 Other Benefit Plans
Accrued benefit obligation	$ 9,287	$ 814	$ 2,949	$ 759
Fair value of plan asset	8,241	–	2,740	–
Funding deficit	$ (1,046)	$ (814)	$ (209)	$ (759)
Significant actuarial assumptions used as at December 31				
Discount rate (percent)	6.90	7.00	7.40	6.90
Expected long-term rate of return on plan assets (percent)	7.40	–	7.90	–
Rate of compensation increase (percent)	5.00	5.00	5.50	5.50
Average remaining service life of active employees (years)	13 – 15	16	14 –16	14 – 16
Net benefit plan expense for the year				
Current service cost and expenses	$ 770	$ 33	$ 755	$ 30
Interest cost	653	53	540	49
Actual return on plan assets	(571)	–	(578)	–
Amortization of transitional obligation	81	30	48	38
Amortization of experience losses (gains)	27	–	(25)	–
	$ 960	$ 116	$ 740	$ 117

NOTE 15. Related Party Transactions

During 2002 AltaGas purchased capital equipment totaling $nil (2001 – $603 thousand) and maintenance services totaling $80 thousand (2001 – $117 thousand) from an equity accounted investee. These transactions have been recorded at their exchange amounts. At December 31, 2002 $2.3 million (2001 – $1.0 million) was owed to AltaGas by this investee.

AltaGas has contracted with a shareholder to purchase a fixed volume of electricity for a fixed price. During 2002 the Company purchased 26,280 MWh (2001 – 26,280 MWh) of electricity for $1.8 million (2001 – $2.1 million).

NOTE 16. Joint Ventures

The Company's proportionate interest in its joint venture arrangements is summarized as follows:

	2002	2001
Revenue	$ 123,438	$ 11,921
Expenses	89,028	10,077
Proportionate share of operating income	$ 34,410	$ 1,844
Current assets	$ 22,602	$ 9,595
Capital assets	47,686	24,147
Energy services arrangements and contracts	104,458	110,066
Investments and other assets	165	222
Current liabilities	(21,768)	(1,252)
Proportionate share of net assets	$ 153,143	$ 142,778
Operating activities	14,341	7,919
Investing activities	(24,767)	(110,232)
Financing activities	10,426	102,313
Proportionate share of change in cash	$ –	$ –

NOTE 17. Segmented Information

AltaGas is a midstream energy company with a portfolio of assets and services used to move energy from the source to the end-user. Commencing January 1, 2002 the Company has three reportable segments:

Gathering and Processing – natural gas gathering and processing, natural gas transmission, ethane and natural gas liquids extraction and third party facility operations services.

Energy Services – power services, gas services and oil and natural gas production.

Natural Gas Distribution – natural gas distribution to end users and related services.

December 31, 2002	Gathering and Processing	Energy Services	Gathering and[(1)] Processing and Energy Services	Natural Gas Distribution	Intersegment Elimination	Total
Revenue	$ 106,031	$ 347,310	$ 453,341	$ 94,316	$ (63,573)	$ 484,084
Cost of sales	(6,460)	(303,092)	(309,552)	(65,463)	60,805	(314,210)
Operating and administrative expenses	(51,462)	(11,127)	(62,589)	(14,358)	2,768	(74,179)
Amortization	(20,991)	(9,097)	(30,088)	(5,711)	–	(35,799)
Operating income	$ 27,118	$ 23,994	$ 51,112	$ 8,784	$ –	$ 59,896
Net additions to capital assets	$ 157,806	$ 1,546	$ 159,352	$ 3,659		$ 163,011
Segment assets	$ 574,609	$ 180,999	$ 755,608	$ 133,589		$ 889,197

The segment information for the year ended December 31, 2001 has not been restated to conform with current financial statement presentation as, due to the sharing of certain costs, it is not practical to separate gas services and oil and gas production. Prior to January 1, 2002 AltaGas had two reportable segments:

Gathering, Processing and Services – natural gas gathering and processing, natural gas transmission, natural gas liquids extraction, oil and gas production, gas services and third party facility operations.

Natural Gas Distribution – natural gas distribution to end users and related services.

December 31, 2001	Gathering[(1)] Processing and Services	Natural Gas Distribution	Intersegment Elimination	Total
Revenue	$ 448,056	$ 120,623	$ (78,904)	$ 489,775
Cost of sales	(339,955)	(93,683)	78,904	(354,734)
Operating and administrative expenses	(50,917)	(13,506)	–	(64,423)
Amortization	(21,993)	(5,249)	–	(27,242)
Operating income	$ 35,191	$ 8,185	$ –	$ 43,376
Net additions to capital assets	$ 86,157	$ 5,403		$ 91,560
Segment assets	$ 469,007	$ 128,099		$ 597,106
Power purchase arrangement				111,890
				$ 708,996

(1) Gathering and Processing and Energy Services segments have been combined for the year ended December 31, 2002 to enable a comparison to the Gathering, Processing and Services segment for the year ended December 31, 2001.

FIVE YEAR REVIEW
FINANCIAL SUMMARY

($ millions except per share amounts)	2002	2001*	2000*	1999*	1998*
OPERATIONS					
Revenue					
Gathering, Processing and Energy Services	–	448.1	469.7	195.9	94.8
Gathering and Processing	**106.1**	N/A	N/A	N/A	N/A
Energy Services	**347.3**	N/A	N/A	N/A	N/A
Natural Gas Distribution	**94.3**	120.6	98.0	66.0	27.3
Intersegment elimination	**(63.6)**	(78.9)	(61.0)	(4.1)	–
Cost of sales	**314.2**	354.8	390.4	171.9	74.3
Net revenue	**169.9**	135.0	116.3	85.9	47.8
Operating and administrative	**74.2**	64.4	58.7	42.6	23.5
EBITDA	**95.7**	70.6	57.6	43.3	24.3
Amortization	**35.8**	27.2	20.7	15.5	7.6
Interest expense	**18.1**	15.9	12.2	10.6	5.5
Income taxes	**13.1**	8.9	7.6	6.2	4.2
Net income	**28.7**	18.6	17.1	11.0	7.0
Net income per basic share	**$ 0.68**	$ 0.49	$ 0.45	$ 0.42	$ 0.38
Net income per diluted share	**$ 0.67**	$ 0.49	$ 0.45	$ 0.35	$ 0.31
EBITDA per basic share	**$ 2.26**	$ 1.85	$ 1.51	$ 1.64	$ 1.32
EBITDA per diluted share	**$ 2.25**	$ 1.84	$ 1.51	$ 1.39	$ 1.08
FUNDS GENERATED FROM OPERATIONS					
From continuing operations	**70.8**	50.2	40.5	28.6	16.1
per basic share	**$ 1.67**	$ 1.31	$ 1.06	$ 1.08	$ 0.88
per diluted share	**$ 1.66**	$ 1.31	$ 1.06	$ 0.92	$ 0.72
SHARE DATA (millions)					
Shares outstanding at year end	**45.2**	38.5	38.2	37.8	18.9
Shares outstanding for the year					
Basic	**42.3**	38.2	38.1	26.4	18.4
Diluted	**42.6**	38.3	38.2	31.1	22.4
ASSETS					
Current assets	**108.0**	79.2	118.3	49.3	34.5
Capital assets	**647.7**	508.9	443.3	369.5	276.3
Goodwill	**18.9**	0.8	–	–	–
Future income taxes	**0.2**	0.2	0.2	–	–
Energy services arrangements and contracts	**107.0**	112.2	–	–	–
Investments and other assets	**7.4**	7.7	9.6	10.3	12.1
	889.2	709.0	571.4	429.1	322.9
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities	**135.1**	145.5	92.5	40.1	28.6
Long term debt	**368.9**	283.9	216.9	151.9	160.3
Deferred revenue and other	**0.8**	1.9	1.5	0.9	0.5
Future and deferred income taxes	**48.1**	17.5	11.1	6.1	4.7
Shareholders' equity	**336.3**	260.2	249.4	230.1	128.8
	889.2	709.0	571.4	429.1	322.9

* certain comparative figures have been reclassified to conform to the current financial presentation

FIVE YEAR REVIEW
FINANCIAL SUMMARY CONTINUED

	2002	2001	2000	1999	1998
RATIOS (percent)					
Return on average equity	**9.6**	7.3	7.1	6.7	9.3
Return on average invested capital	**9.2**	8.7	8.6	8.4	9.5
Debt as a percent of total capitalization	**55.5**	59.6	46.5	39.8	55.4
OPERATIONAL SUMMARY					
Gathering and Processing					
Processing capacity (gross Mmcf/d) [1]	**842**	768	712	658	494
Processed throughput (gross Mmcf/d) [2]	**532**	498	434	371	276
Capacity utilization (percent) [1]	**63**	65	61	56	56
Average working interest (percent) [1]	**88**	88	87	89	89
Extraction inlet capacity (Mmcf/d) [1]	**349**	219	211	199	155
Extraction production (Bbls/d) [3]	**3,399**	2,618	3,369	2,198	956
Transmission volumes (Mmcf/d) [4][7]	**106**	47	36	26	16
Energy Services					
Volume (thousands of MW/h)	**2,669**	–	–	–	–
Average price received ($/MW/h) [3]	**41.27**	–	–	–	–
Natural gas distribution [5]					
Volume of natural gas distributed					
Sales (Bcf)	**14**	13	14	13	6
Transportation (Bcf)	**8**	8	7	6	3
Degree day variance (percent) [6]	**7.8**	(3.4)	6.5	(1.1)	–

(1) As at December 31
(2) Fourth quarter average
(3) Annual average
(4) Average for fourth quarter except for 1998 which included December only. Operation of AltaGas' first transmission pipeline commenced in December 1998
(5) AltaGas purchased 100% of the outstanding common shares of AltaGas Utilities on June 30, 1998
(6) Variance from 20 year average – positive variances are favourable
(7) Volumes do not include condensate pipeline volumes

QUARTERLY REVIEW
FINANCIAL SUMMARY

2002 ($ millions except per share amounts)	Q1*	Q2*	Q3*	Q4*	Annual
Revenue					
Gathering and Processing					
Field gathering and processing	22.7	20.5	20.3	22.6	**86.1**
Extraction	2.5	2.6	3.4	4.3	**12.8**
Transmission	1.6	1.6	1.7	2.3	**7.2**
Energy Services	79.8	88.0	73.5	106.0	**347.3**
Natural Gas Distribution	35.8	15.4	9.1	34.0	**94.3**
Intersegment elimination	(19.9)	(12.5)	(5.9)	(25.3)	**(63.6)**
	122.5	115.6	102.1	143.9	**484.1**
Net revenue					
Gathering and Processing					
Field gathering and processing	22.7	20.5	20.3	22.6	**86.1**
Extraction	1.1	1.4	2.0	1.8	**6.3**
Transmission	1.6	1.6	1.7	2.3	**7.2**
Energy Services	6.4	10.2	13.0	14.6	**44.2**
Natural Gas Distribution	10.0	5.9	4.5	8.5	**28.9**
Intersegment elimination	(1.0)	(0.7)	(0.1)	(1.0)	**(2.8)**
	40.8	38.9	41.4	48.8	**169.9**
Operating income					
Gathering and Processing	8.8	7.0	5.7	5.6	**27.1**
Energy Services	1.5	4.8	7.8	9.9	**24.0**
Natural Gas Distribution	5.1	0.7	(0.4)	3.4	**8.8**
	15.4	12.5	13.1	18.9	**59.9**
Net Income	7.4	4.8	5.5	11.0	**28.7**
per basic share	$ 0.19	$ 0.12	$ 0.12	$ 0.24	**$ 0.68**
per diluted share	$ 0.19	$ 0.12	$ 0.12	$ 0.24	**$ 0.67**
EBITDA	24.2	21.4	22.0	28.1	**95.7**
per basic share	$ 0.63	$ 0.53	$ 0.49	$ 0.62	**$ 2.26**
per diluted share	$ 0.63	$ 0.52	$ 0.49	$ 0.62	**$ 2.25**
Funds generated from operations	14.8	16.0	17.6	22.4	**70.8**
per basic share	$ 0.38	$ 0.40	$ 0.39	$ 0.50	**$ 1.67**
per diluted share	$ 0.38	$ 0.39	$ 0.39	$ 0.50	**$ 1.66**
Net additions to capital assets	11.2	15.4	7.1	129.3	**163.0**
Gathering and Processing	9.2	12.9	5.0	130.7	**157.8**
Energy Services	0.7	0.9	0.5	-0.6	**1.5**
Natural Gas Distribution	1.3	1.6	1.6	-0.8	**3.7**
Segment assets	710.4	720.2	716.5	889.2	**889.2**
Gathering and Processing	432.9	430.6	435.0	574.6	**574.6**
Energy Services	147.6	170.0	164.8	181.0	**181.0**
Natural Gas Distribution	129.9	119.6	116.7	133.6	**133.6**

* certain comparative figures have been reclassified to conform to the current financial presentation

QUARTERLY REVIEW
FINANCIAL SUMMARY

2001 ($ millions except per share amounts)	Q1*	Q2*	Q3*	Q4*	Annual
Revenue					
Gathering, Processing and Services					
Field gathering and processing	17.2	19.2	21.3	23.1	80.2
Extraction	1.9	2.9	2.6	2.9	10.3
Transmission	1.7	1.5	1.6	1.7	6.5
Services	144.7	106.2	53.7	55.9	360.5
Intercomponent elimination	(1.8)	(2.0)	(2.4)	(3.2)	(9.4)
Natural Gas Distribution	69.1	23.0	6.6	21.9	120.6
Intersegment elimination	(42.1)	(18.0)	(5.4)	(13.4)	(78.9)
	190.7	132.8	77.4	88.9	489.8
Net revenue					
Gathering, Processing and Services					
Field gathering and processing	17.2	19.2	21.3	22.5	79.6
Extraction	1.1	1.2	1.4	1.2	4.9
Transmission	1.7	1.5	1.6	1.7	6.5
Services	5.1	5.7	4.6	4.6	20.0
Intercomponent elimination	(0.6)	(0.6)	(1.1)	(0.6)	(2.9)
Natural Gas Distribution	8.9	5.8	4.4	7.8	26.9
	33.4	32.8	31.6	37.2	135.0
Operating income					
Gathering, Processing and Services	7.7	8.3	8.7	10.5	35.2
Natural Gas Distribution	4.0	0.7	(0.2)	3.7	8.2
	11.7	9.0	8.5	14.2	43.4
Net Income	5.4	3.4	2.9	6.9	18.6
per basic share	$ 0.14	$ 0.09	$ 0.08	$ 0.18	$ 0.49
per diluted share	$ 0.14	$ 0.09	$ 0.08	$ 0.18	$ 0.49
EBITDA	17.9	15.8	15.6	21.3	70.6
per basic share	$ 0.47	$ 0.42	$ 0.41	$ 0.56	$ 1.85
per diluted share	$ 0.47	$ 0.41	$ 0.40	$ 0.55	$ 1.84
Funds generated from operations	12.7	10.9	11.6	15.0	50.2
per basic share	$ 0.33	$ 0.29	$ 0.30	$ 0.39	$ 1.31
per diluted share	$ 0.33	$ 0.29	$ 0.30	$ 0.39	$ 1.31
Net additions to capital assets	37.2	28.9	17.6	119.8	203.5
Gathering and Processing	35.8	27.1	16.9	6.4	86.2
Natural Gas Distribution	1.4	1.8	0.7	1.5	5.4
Power purchase arrangement	–	–	–	111.9	111.9
Segment assets	560.0	576.8	576.3	709.0	709.0
Gathering and Processing	422.8	447.2	450.8	469.0	469.0
Natural Gas Distribution	137.2	129.6	125.5	128.1	128.1
Power purchase arrangement	–	–	–	111.9	111.9

* certain comparative figures have been reclassified to conform to the current financial presentation

QUARTERLY REVIEW
OPERATING SUMMARY

2002	Q1	Q2	Q3	Q4	Annual
Gathering and Processing					
Processing capacity (gross Mmcf/d) (1)	768	767	767	842	**842**
Processed throughput (gross Mmcf/d) (2)(6)	482	473	479	532	**532**
Capacity utilization (percent) (1)(6)	63	62	62	63	**63**
Average working interest (percent) (1)	88	88	87	88	**88**
Extraction inlet capacity (Mmcf/d) (1)	219	219	219	349	**349**
Extraction production (Bbls/d) (5)	3,248	2,806	3,487	3,802	**3,399**
Transmission volumes (Mmcf/d) (2)(4)	48	48	75	106	**106**
Energy Services					
Volume of power sold (thousands of MWh)	659	664	674	672	**2,669**
Average price received on the sale of power ($/MWh) (2)	34.38	42.11	42.51	46.45	**41.27**
Natural Gas Distribution					
Volume of natural gas distributed					
Sales (Bcf)	6	2	1	5	**14**
Transportation (Bcf)	2	2	2	2	**8**
Degree day variance (percent) (3)	10.4	34.4	20.7	(7.4)	**7.8**

2001	Q1	Q2	Q3	Q4	Annual
Gathering and Processing					
Processing capacity (gross Mmcf/d) (1)	731	777	777	768	768
Processed throughput (gross Mmcf/d) (2)	477	494	488	498	498
Capacity utilization (percent) (1)	65	64	63	65	65
Average working interest (percent) (1)	87	88	88	88	88
Extraction inlet capacity (Mmcf/d) (1)	211	211	211	219	219
Extraction production (Bbls/d) (5)	1,624	2,569	2,690	3,203	2,618
Transmission volumes (Mmcf/d) (2)(4)	34	42	48	47	47
Energy Services					
Volume of power sold (thousands of MWh)	n/a	n/a	n/a	n/a	n/a
Average price received on the sale of power ($/MWh) (7)	n/a	n/a	n/a	n/a	n/a
Natural Gas Distribution					
Volume of natural gas distributed					
Sales (Bcf)	5	2	1	5	13
Transportation (Bcf)	2	2	2	2	8
Degree day variance (percent) (3)	(8.8)	7.5	(8.7)	0.2	(3.4)

(1) As at period end
(2) Quarter average
(3) Variance from 20-year average. Positive variances are favourable.
(4) Excludes condensate pipeline volumes
(5) Period average
(6) Processed throughput includes Wabasca from November 1, 2002. Proforma for the full quarter would result in 65 percent capacity utilization.
(7) AltaGas entered the power business in late December 2001.

DIVIDENDS

On January 11, 2001 the Corporation declared its first quarterly cash dividend per fully paid common share and participating share in the capital stock of the Company, which was paid on March 31, 2001. No dividends were paid on any shares of AltaGas from the date of its incorporation to the end of December 2000.

Dividend levels will be reviewed periodically by the Board of Directors giving consideration to AltaGas' growth-related initiatives, financial position, financing requirements, cash flow and other relevant factors. The following table summarizes the dividends paid by AltaGas in 2002 and 2001.

	2002	2001
First quarter	**$ 0.06**	$ 0.03
Second quarter	**0.06**	0.03
Third quarter	**0.08**	0.06
Fourth quarter	**0.08**	0.06
	$ 0.28	$ 0.18

EARNINGS COVERAGE RATIO

The following table sets forth AltaGas Services Inc.'s earnings coverage ratio which is provided in connection with its continuous offering of Medium Term Notes. The financial ratio has been calculated based on Canadian generally accepted accounting principles.

	2002	2001
Earnings coverage on short and long term debt	**3.3X**	2.7X

DEFINITIONS

Bbls/d	barrels per day
Bcf	billion cubic feet
Mmcf/d	million cubic feet per day
MW	megawatt
Net revenue	gross revenue less the costs of the purchase of natural gas for resale, and the costs to purchase power under the PPA

When used in this annual report, the words "anticipate", "expect", "estimate", and similar expressions are intended to identify forward looking statements. Such statements are subject to certain risks, uncertainties and assumptions that could cause actual results to differ materially from those contemplated in the forward looking statements. These risks and uncertainties include operating performance, regulatory and environmental issues, weather and economic conditions, competition and financing availability.

CORPORATE INFORMATION

DIRECTORS

J. Richard Bird [1]
Group Vice President, Transportation North of Enbridge Inc.
Calgary, Alberta

John B. Breen [1]
Managing Partner
MWI & Partners
Toronto, Ontario

David W. Cornhill [3] [5]
President and Chief Executive Officer
AltaGas Services Inc.

Bonnie D. DuPont [2]
Group Vice President, Corporate Resources of Enbridge Inc.
Calgary, Alberta

Denis C. Fonteyne [2] [3]
Natural Gas Industry Consultant
Calgary, Alberta

Daryl H. Gilbert [1]
President and Chief Executive Officer
Gilbert Laustsen Jung Associates Ltd.
Calgary, Alberta

Myron F. Kanik [2] [3] [6]
President
Kanik and Associates Ltd.
Calgary, Alberta

David F. Mackie [2]
Energy Industry Consultant and Investor
Houston, Texas

OFFICERS

David W. Cornhill
President and Chief Executive Officer

Dennis A. Dawson
Vice President, General Counsel and Corporate Secretary

James R. Gilbert
Controller Operations

Denise M. Kitagawa
Vice President

Gerry M. Malin
Vice President
Regulatory and Northern Development

John W. A. McDonald
Vice President

Patricia M. Newson
Senior Vice President Finance and Chief Financial Officer

Marilyn A. Pfaefflin
Treasurer

Ken E. Stout
Vice President
Corporate Resources

Marshal L. Thompson
Segment Vice President
Gathering and Processing

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ANNUAL MEETING

The annual meeting of the shareholders of AltaGas Services Inc. will be held on Thursday April 24, 2003 at 3:00 p.m. at the Metropolitan Centre, 333-4th Ave S.W., Calgary, Alberta.

Learn more about AltaGas on our website at www.altagas.ca

(1) Member of the Audit Committee of the Corporation. The Corporation is required to have an audit committee under the CBCA, the corporate statute governing the Corporation.

(2) Member of the Human Resources and Compensation Committee of the Corporation.

(3) Member of the Environment and Safety Committee of the Corporation.

(4) The Corporation does not have an Executive Committee.

(5) Chairman of the Board of Directors.

(6) Lead director.

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Printed in Canada

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